



THE WORLD BANK

Thailand

# ECONOMIC MONITOR

FEBRUARY 2000

<http://www.worldbank.or.th/monitor>

**Bangkok,**  
**February 2000**

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*The Monitor draws upon Bank's existing and ongoing work. It was prepared with inputs from Alex Mutebi, Dana Weist, David Robalino, Michael Markels, Tanatat Puttasuwan, Behdad Nowroozi, Abha Joshi-Ghani, Anil Deollikar, Renuka Vongviriyatham, Melissa Fossberg, Mohan Gopal, David D' Adhermar, and Tip-arpar Karasudhi. Useful comments were received from Magdi Amin, Maryam Salim, Lars Sondergaard, Steen Byskov and Ijaz Nabi. The views expressed in the Thailand Economic Monitor are entirely those of the authors and should not be cited without prior permission. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent. The material contained herein has been obtained from sources believed reliable but is not necessarily complete and cannot be guaranteed.*

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## Executive Summary

- **Recovery has gained momentum.** Real GDP is estimated to have grown by 4 to 5% in 1999, after contracting by more than 10% in 1998 (and 2% in 1997). Manufacturing has led the recovery, and non-financial services have followed closely. The worst affected sectors (e.g., construction and real estate) may be bottoming out. Recovery has been helped by the Government's structural reform program, accommodating macroeconomic policies, and the regional recovery. The engine of growth is now shifting from fiscal stimulus, exports and private consumption to private investment. Further reform measures are needed to put the private sector on a robust and self-sustainable growth path. The economy is likely to grow at 4-5 % in 2000. At a 4-5% output growth, Thailand is expected to regain its pre-crisis level of output per capita by year 2002, and the pre-crisis level of consumption per capita by year 2003. In terms of the absolute number of poor, around 7 million Thais will be living on less than \$2 a day in 2002, compared to 8.2 million at the peak of the crisis in 1998.
  - **Financial sector has stabilized and bank restructuring needs to be accelerated.** Non-performing loans (NPLs), after peaking at 47.7% of total bank lending in May, fell to 38.5% in December 1999. Many private banks are close to meeting provisioning norms. But with regulatory forbearance (which permits understated provisioning for loan losses) ending in end-2000, and NPLs remaining high, the eventual losses could be much larger than capital and provisions can absorb. Going forward, the capital position of the banks would require further strengthening to support the full recovery of output, accelerate debt restructuring, and maintain market confidence. The downside risks of recovery stalling in the future would argue in favor of accelerating bank restructuring now.
  - **A differentiated picture on corporate restructuring appears to be emerging across sectors.** Several indicators (restructuring completion ratio, debt-to-equity ratio, cash flow and/or ability to service debt, capacity utilization, and merger activities) suggest that restructuring in manufacturing and services sectors (tradable goods) is doing better than in real estate and construction sectors (non-tradable goods). Overall, however, the pace and quality of restructuring has been slow. A sharper decline in NPLs has been prevented by the emergence of new NPLs and the reentry of restructured loans to NPL status (on average Bt 55-60 billion or \$1.4-1.6 billion per month). A more pro-active state role on corporate restructuring is needed. CDRAC will need to take a more aggressive line with the implementation of restructuring agreements.
  - **Momentum on legal reforms needs to be maintained.** The commercial and legal communities view the 1998 and 1999 amendments of the insolvency law as positive achievements. The establishment of the Central Bankruptcy Court is widely acknowledged as a major contribution to an improved bankruptcy regime. However, banks do not appear to be filing petitions for bankruptcy or reorganization in numbers commensurate with the magnitude of distressed loans. Thailand will need to consider further reforms to strengthen bankruptcy laws and debt collection and security enforcement.
  - **Social impact of the crisis has been successfully managed.** Government-supported measures, such as employment creation, training programs, and transfers to the poor and indigent through informal safety nets, played an important role in containing the crisis. Although the worst of the crisis is over, unemployment remains above pre-crisis levels. Around one million Thais (Aug 1999) are currently unemployed. An additional half a million, mostly women, who opted out of the labor force during the downturn, will rejoin the labor force. Social safety nets will need to be maintained until recovery has been cemented. A vision for medium-term safety nets will need to be defined.
  - **Medium-term structural reforms** will continue to be important for reducing poverty, and improving competitiveness, governance, and the environment. This Monitor reports progress made and challenges ahead in the areas of competition law, reform of state-owned enterprises, corporate governance, and public sector reform. A section on the medium-term challenges is attached at the end of the report.
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**RECOVERY HAS BROADENED**

**Key Developments**

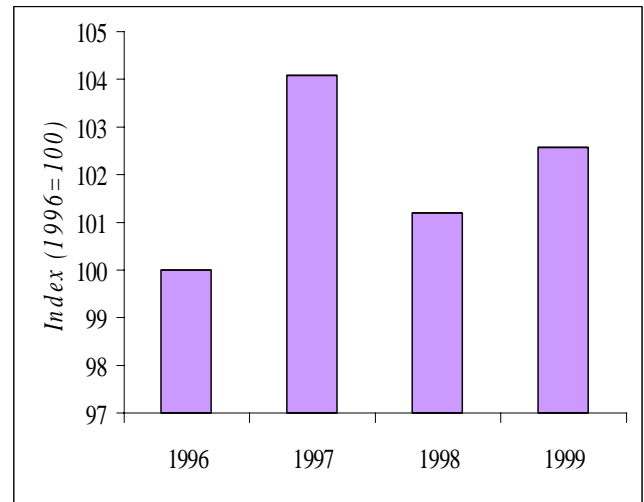
- Thailand’s recovery has gained momentum. Fiscal stimulus, exports and private consumption have all contributed to growth.
- Recovery has broadened from the supply side. Manufacturing led the recovery, with non-financial service sectors following closely. The worst affected sectors may be bottoming out (e.g., construction and real estate).
- Private investment recovery remains fragile.

**Growth reestablished.** After contracting by more than 10% in 1998, and 2% in 1997, real GDP growth is estimated to have reached 4 to 5% in 1999.

**From the demand side, recovery has been helped by fiscal stimulus, exports and private consumption.** Inventory rebuilding and growth in private investment will be the final engines of growth. Private investment is no longer a drag on growth. Thailand’s recovery has been traditional.

- **Fiscal stimulus has helped recovery:** A rough indicator of fiscal stimulus is government discretionary spending (current expenditure net of interest payments). Discretionary public spending has been broadly counter-cyclical in real terms. It grew in FY97 at the height of the crisis. Given the low level of public debt at the start of the crisis, the Government was able to respond quickly with a counter-cyclical fiscal policy.
- **Exports have grown rapidly.** Exports in US dollar terms are estimated to have grown by 5 to 6 percent in 1999, in contrast to the contraction by nearly 7% in 1998. Initially, the US and the EU markets contributed to the pick up in Thai exports. More recently, the destination for Thai exports has broadened. In line with the regional recovery, Thai exports to Japan and ASEAN countries increased by 19.2 percent and 22.8 percent year-on-year in October 1999, respectively. Going forward, the regional recovery and the high proportion of intra-regional trade should help to

**Figure 1: Government real discretionary spending was broadly counter-cyclical**

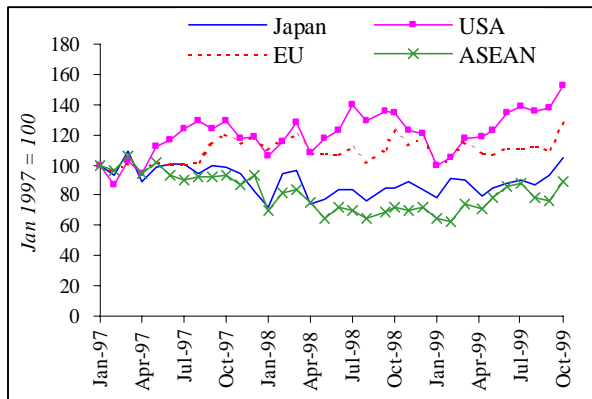


maintain the momentum of Thai exports, even if US markets falter. The share of Thai exports to Japan and ASEAN countries from January to October 1999 was at 14.0 percent and 15.4 percent, respectively. This is below the pre-crisis levels of 16.8 percent for Japan and 19.1 percent for ASEAN. Although exports grew in 1999, so did imports. The contribution of net trade (exports minus imports) to growth has declined with the recovery in imports. Table 1 shows that the contribution of net exports to GDP growth turned negative in 1999.

**Table 1: Contribution to GDP growth**

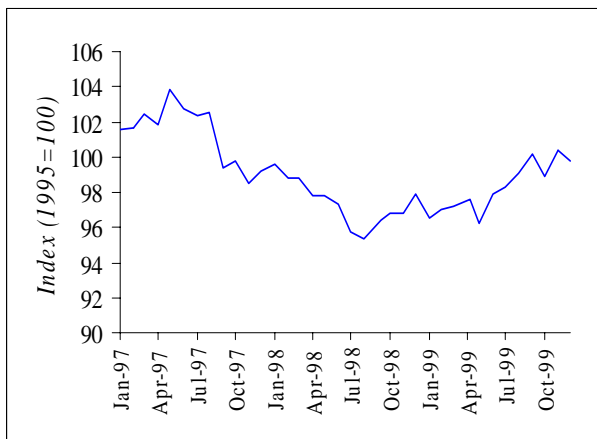
	1998	1999
Real GDP growth (%)	-10.0	4.0
<b>Contributions to growth</b>		
Private consumption	-7.8	2.7
Private investment	-10.2	-0.2
Public expenditure	-2.9	1.7
Change in stocks (including statistical discrepancy)	-3.8	2.7
Net exports	14.7	-2.9

**Figure 2: Regional exports have picked up (US\$)**

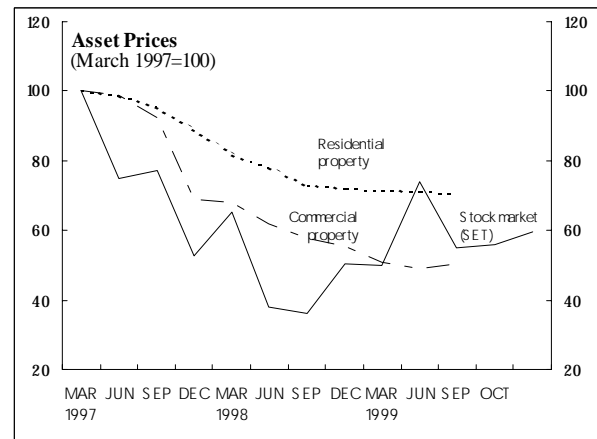


- Private consumption has grown.** Bank of Thailand's private consumption index bottomed out by the third quarter of 1998 and has steadily increased since then. Several indicators such as electricity consumption, sales of departmental stores, sales of automobiles and motorcycles, imports of consumer goods, and revenue collected from VAT, show private consumption increasing in 1999. Private consumption recovery has been helped by the positive wealth effects with the recovery in the stock market since end-1998. Income effects have also turned positive with the fall in the unemployment rate and an increase in real wages in the manufacturing sector. Worker confidence is being restored as the number of jobs terminated, after peaking in October 1999, has fallen. The number of vacancies seems to be steadily increasing. Going forward, there is some room for private consumption to pick up, as its share in GDP is still below the pre-crisis level.

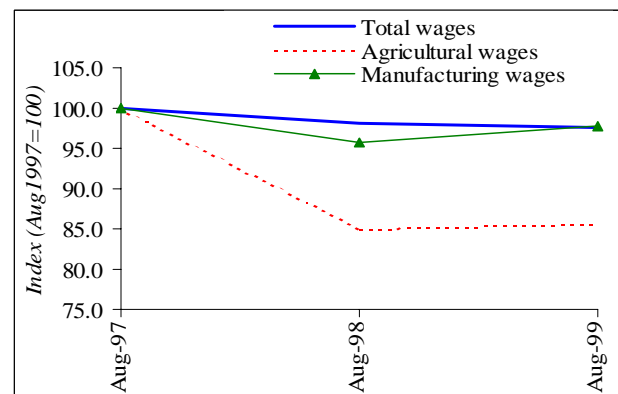
**Figure 3: Private consumption index is on the rise**



**Figure 4: Asset Prices Bottomed Out**



**Figure 5: Real wages may be flattening**



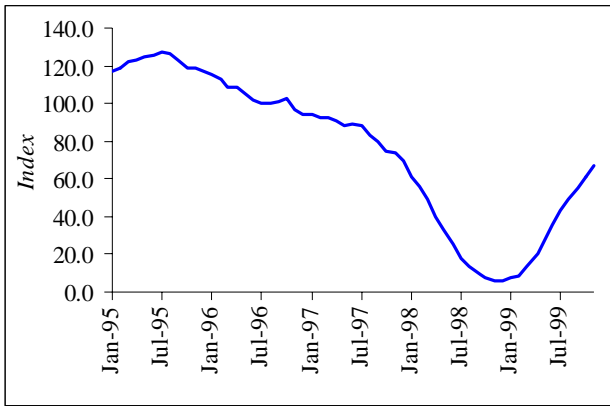
**Table 2: Real wages and employment by sector**

	Employment		Real Wages at 1994 prices	
	Aug-98	Aug-99	Aug-98	Aug-99
<b>% Changes</b>				
<b>Total</b>	-3.1	-0.2	-1.9	-0.5
Agriculture, forestry, hunting & fishing	-1.3	-5.5	-15.0	0.8
Manufacturing	-2.4	4.9	-4.2	2.1
Construction, repair and demolition	-36.7	0.5	-2.0	-2.5
Commerce	-3.0	6.1	-2.0	-1.2
Service	5.6	6.7	-2.2	-1.5

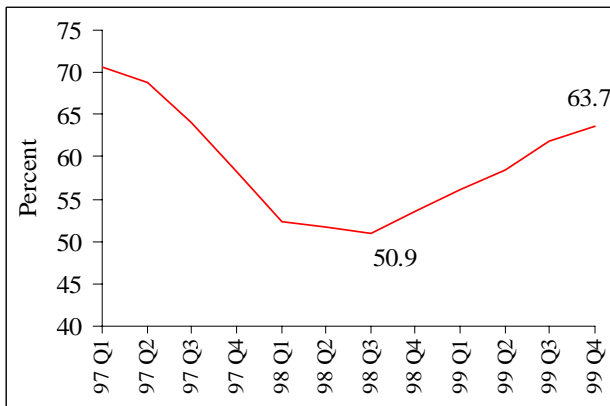
- Private investment now appears to be turning positive.** Bank of Thailand's private investment index (based on an average of several indicators including imported capital goods, domestic cement consumption, sale of iron sheets, etc.)

registered zero growth year-on-year in December 1999, after 14 months of continuous negative growth. Private investment is the newest indicator of recovery following the growth in consumption, manufacturing, and exports. The lag in private investment growth is consistent with the present level of capacity utilization which is well below pre-crisis levels. Indeed, capacity utilization in Q4 1999 stood at 63.7%.

**Figure 6: Private investment moves into positive territory**



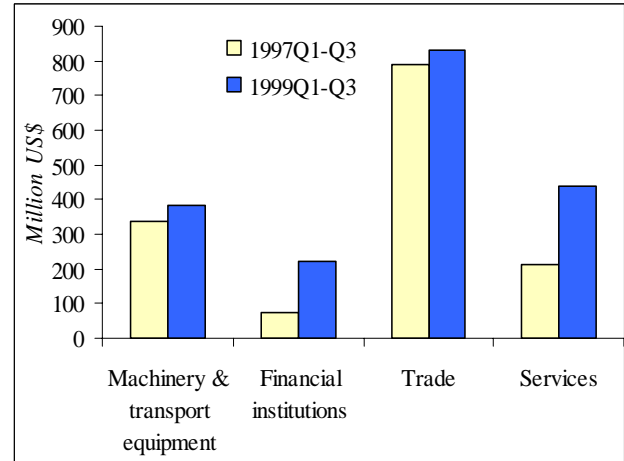
**Figure 7: Capacity utilization has increased**



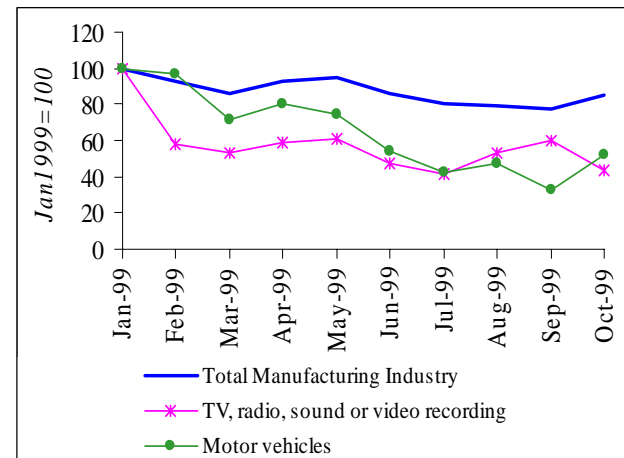
- **Investment recovery is being led by foreign direct investment.** FDI inflows into Thailand have been impressive. Sectors that continue to attract FDI include machinery and transport equipment, finance, trade and services.
- **Inventory rebuilding may also contribute to growth.** Survey data from the Ministry of Industry show that the average inventory-to-shipment ratio fell in 1999 for the manufacturing sector. For some sub-sectors that have grown rapidly (e.g., motor vehicles), the inventory-to-shipment ratios

are at historically low levels. As the economy recovers, inventories are expected to return to pre-crisis levels, thus, boosting growth.

**Figure 8: More dynamic sectors have attracted FDI**

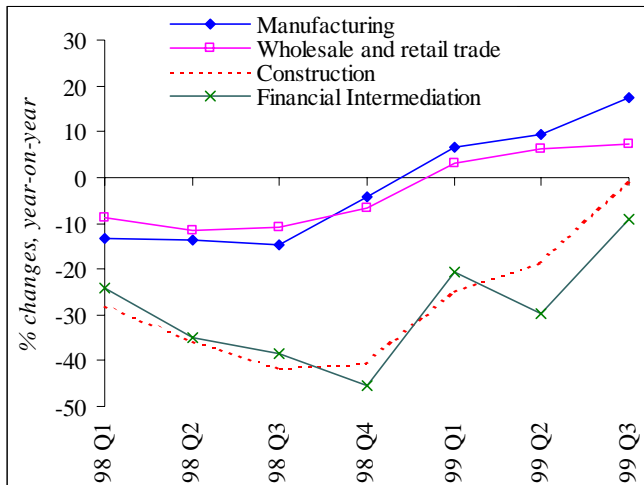


**Figure 9: Inventory-shipment ratio has fallen**



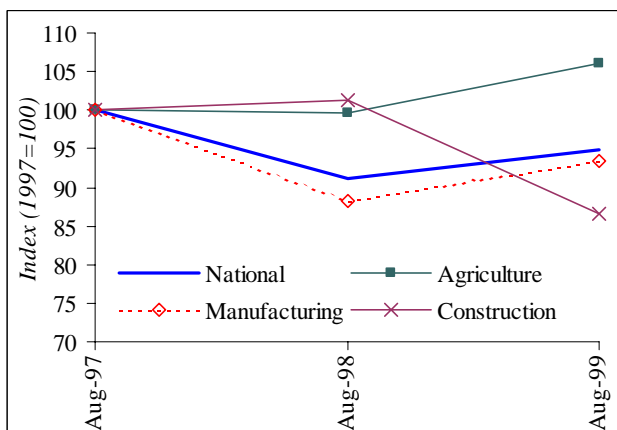
- **From the supply side, recovery has broadened.** Recovery led by the rebound in the manufacturing sector has now broadened to other sectors. The manufacturing sector rebounded in Q1 1999 with growth of 6.6 percent year-on-year, and increased to 17.4 percent year-on-year in the third quarter of 1999. Services increased from 3.3 percent year-on-year in Q1 to 7 percent in Q3 1999. The financial sector continued to contract while the real estate sector appears to have bottomed out by Q3 1999. Construction activities continue to decline year-on-year although the contraction has slowed down to -0.6 percent in Q3 1999 when compared to -41.6 percent in the same period for 1998.

**Figure 10: GDP growth was led by the manufacturing sector**



- **Productivity has increased, reflecting cyclical recovery and structural reforms.** Value-added per worker has increased from 1998 to 1999, especially in agriculture and manufacturing. Value-added per worker increased by 6.5 percent year-on-year in 1999 in the agricultural sector, and by 5.8 percent in the manufacturing sector. However, not all sectors did well. Productivity fell in the construction sector by 14.6 percent.

**Figure 11: Productivity has picked up**  
(value added per worker)



**MACROECONOMIC POLICIES SUPPORTS RECOVERY**

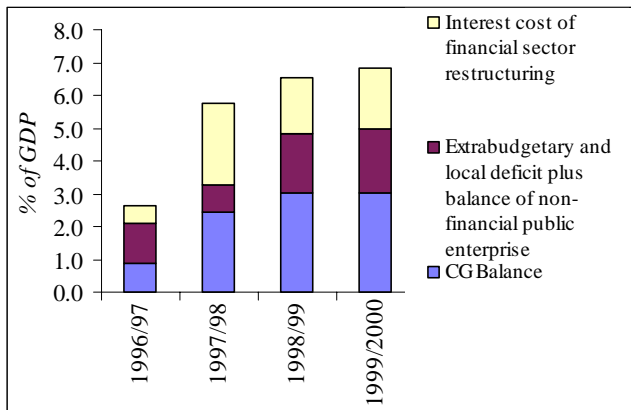
**Key developments**

- Fiscal policy, appropriately, remains counter-cyclical, given that actual output is below its full capacity. Fiscal consolidation should receive high priority once recovery has been cemented.
- Despite easy monetary stance, credit has not expanded.
- Recovery is being financed by domestic capital markets, FDI inflows, improved cash flows from restructuring, and mergers and acquisition.
- Thailand’s net external debt has fallen sharply.

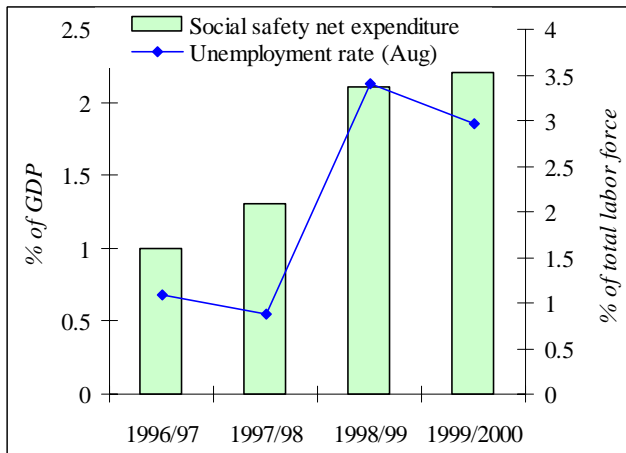
**Fiscal policies remain counter-cyclical.**

- **Given the depth of the crisis, the budget deficit was steadily increased from around 3% of GDP in FY97 to 7% in FY2000.** Going forward, the size of the budget deficit is likely to shrink with the recovery in the private sector. The fiscal cost of financial sector restructuring has been large, and it accounts for a major share of the budget deficit. Indeed the interest cost of financial sector restructuring increased from less than 0.6% of GDP in FY97 to around 2% of GDP in FY2000. An increasing proportion of the budget deficit was also channeled towards the social safety nets. Public expenditure on social safety nets increased from around 1% of GDP in FY97 to 2.2% in FY2000. The Government is broadly in a position to stabilize the public debt at present levels by running a modest surplus on the primary balance, once the crisis is over (see Thailand Economic Monitor, October 1999).

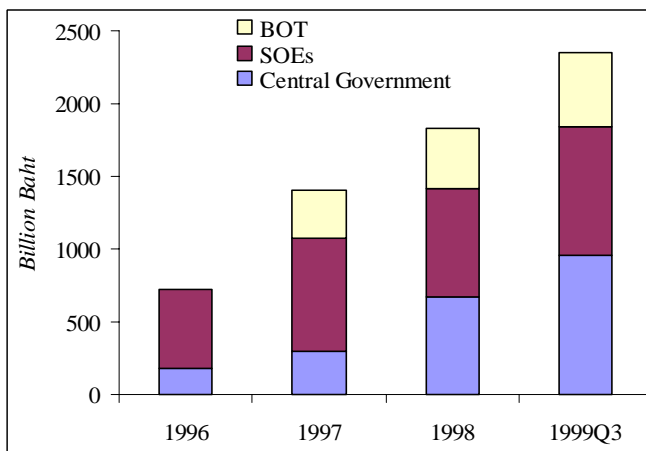
**Figure 12: Thailand's public sector deficit**



**Figure 13: Social safety net expenditures have increased**

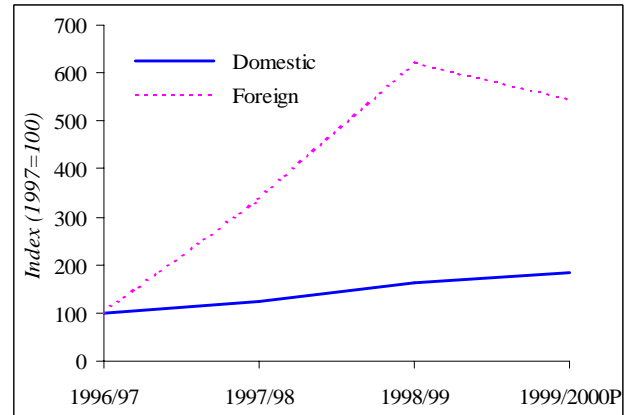


**Figure 14: Public debt has risen since the crisis**  
(Does not include fiscalization of financial sector restructuring)



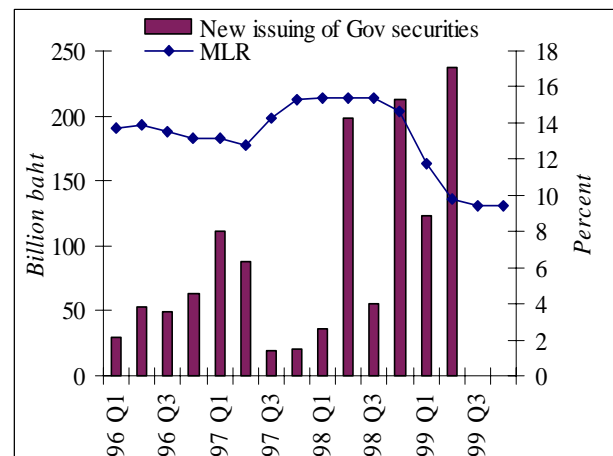
- *In financing its budget deficit, the Thai Government is shifting away from foreign towards domestic sources.* This strategy is aimed at developing the local capital markets.

**Figure 15: Financing of the budget deficit**

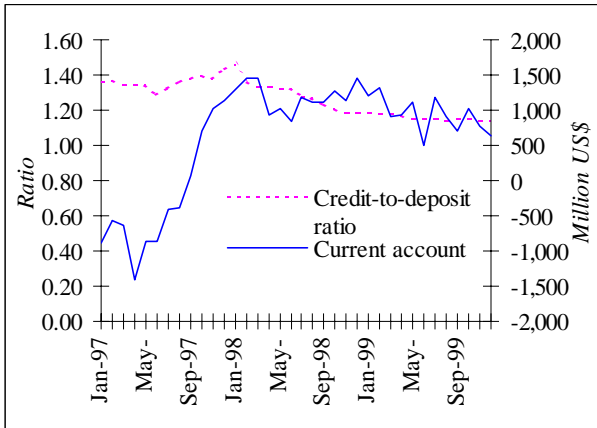


- *The additional issuance of government securities has not crowded out the private sector.* The Government is estimated to have financed 60 percent of its FY1999 deficit domestically. The share of the domestically financed deficit is expected to increase to 66% in FY2000. Given the excess capacity in the economy and sluggish private investment, increased domestic financing of government debt is unlikely to raise domestic interest rates and crowd out the private sector. Moreover, liquidity in the financial system remains high, as indicated by the declining loan to deposit ratio. Liquidity injections have also resulted from capital account surpluses.

**Figure 16: Additional issuance of government securities did not crowd out private sector**



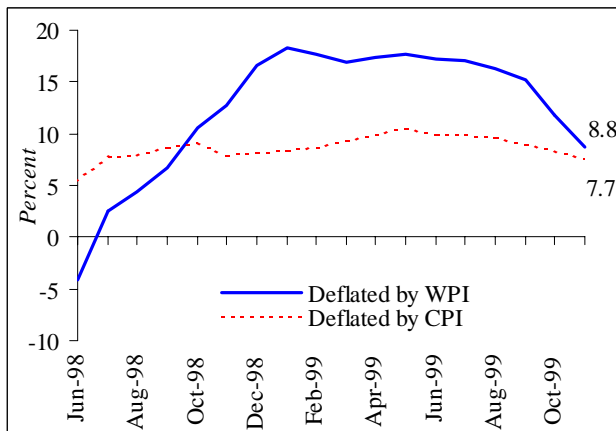
**Figure 17: Liquidity is high with falling bank credit-to-deposit ratio and BOP current account surplus**



**Monetary policy remains accommodating.**

- **Real lending rates may now be trending down, although they remain above pre-crisis levels.** This may reflect a high level of NPLs in the banking system and a high risk on lending.

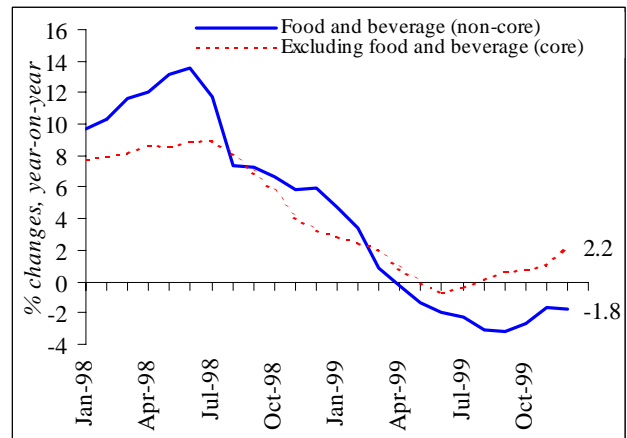
**Figure 18: Real interest rates remain high**



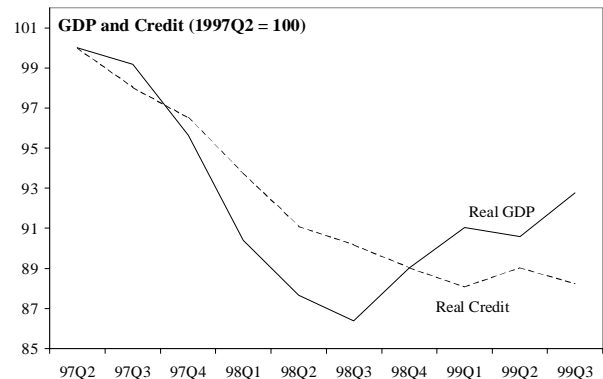
- **Inflation remains low.** Inflation as measured by the CPI is estimated at 0.3 percent for the year 1999. Core inflation has been positive since August 1999 and averaged one percent in 1999. Non-core inflation, on the other hand, has been negative since April, averaging -0.9 percent in 1999 (Figure 19). This is the result of falling domestic and international agricultural prices.
- **Bank credit has continued to decline.** Despite the Bank of Thailand’s expansionary monetary stance, commercial bank credit contracted by 4.3 percent

year-on-year in 1999, although bank credits, excluding BIBF, increased slightly by 0.9 percent year-on-year. The contraction is the result of low credit demand. The large amount of bad loan write-offs and transfer of non-performing assets to asset management companies also contributed to the drop in commercial bank credit in December.

**Figure 19: Core inflation rate remains modest**



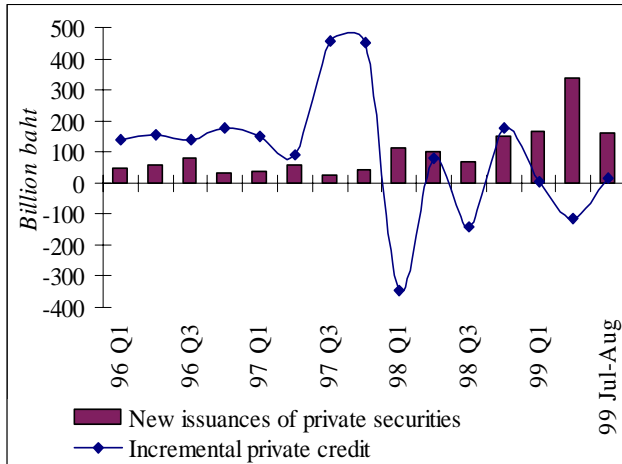
**Figure 20: Credit-to-GDP ratio is still falling**



- **Recovery is being financed by alternative sources of funds.** With bank credit falling, companies have relied on other sources of financing. New issuance of private securities increased sharply and has exceeded changes in commercial bank credits, though this is primarily the result of issuing of commercial papers by a few large corporations (Figure 21). The sectors that have expanded most rapidly, such as manufacturing exports, have traditionally relied on FDI rather than local banks for financing. Recovery is prominent in sectors dominated by multinationals. Such sectors include vehicles, integrated circuits, compressors, and television. Other sources of funding include

improved cash flows of firms resulting from corporate restructuring (see Corporate Restructuring section).

**Figure 21: Private securities issuance has been rising as bank credits fell**

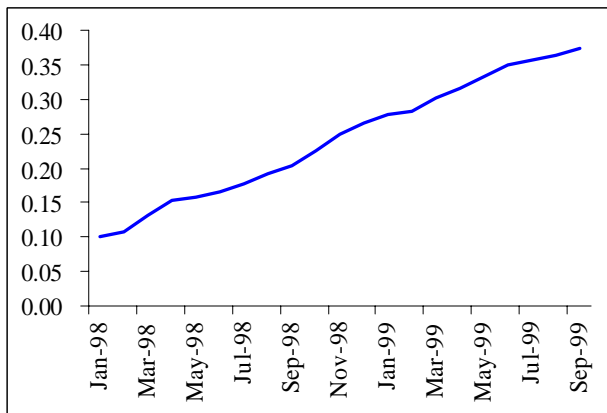


Thailand’s net external debt has fallen.

- *The net external debt (net of foreign exchange reserves) fell sharply in 1999.* Total debt at the end of the third quarter of 1999 amounted to US\$78.7 billion, which is 63.7 percent of GDP with a corresponding debt-service ratio of about 19.9 percent. This compares favorably to the total

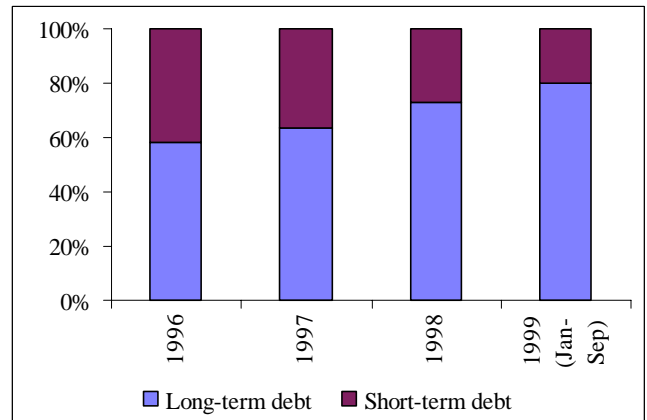
**Figure 22: Net external debt has been on the decline**

(Ratio of net foreign reserves to total external debt)



of US\$93.4 billion at the end of 1997. Short-term debt is estimated at US\$15.7 in the third quarter of 1999 or 19.9 percent of the total when compared with US\$34.4 in 1997. This has resulted from the retiring of short-term debt and unwinding of forward contracts and also the conversion of short-term debt into long-term debt, making Thailand less vulnerable to external shocks.

**Figure 23: The structure of external debts has improved**



**FINANCIAL SECTOR REFORM: PROGRESS AND CHALLENGES**

**Key Developments**

- Non-performing loans (NPLs) are on the decline<sup>1</sup>.
- More private banks intend to set up private asset management corporations (AMCs), following the government’s removal of tax disincentives and the BoT’s recent relaxation

<sup>1</sup> NPLs, according to the Bank of Thailand’s revised definition, have started to decline. In the next six months, NPLs are likely to decline substantially, due in large part to a transfer of NPLs from banks to Asset Management Companies (AMCs) and to restructuring. The BOT has recently relaxed the criteria by which restructured loans are removed from NPL status. Today, any new restructuring agreement qualifies for NPL exit without any track record for repayments or other quality control. This raises questions about how many restructured loans may become NPLs once again. Since the revised NPL definition is more lenient than before, caution needs to be exercised regarding NPL existing under the revised definition so as to pre-empt their returning as NPLs in future.

of the regulation regarding a bank's majority-owned AMC.

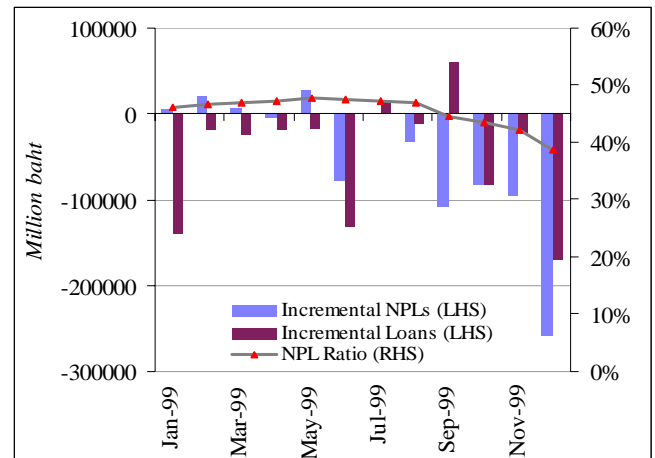
- While two banks and one large finance company successfully raised capital last year, one bank withdrew its common stock issue in Q4 1999 due to unfavorable market conditions.
- Primary market activities have soared. Large blue chips are well served by both the capital market and by foreign banks. However, historically, unlisted Thai firms in the middle market and SMEs rely heavily on Thai banks for financing. Continued weakness in Thai banks due to NPL burden and capital constraints might limit credit availability to this fragile sector.
- The Financial Restructuring Authority (FRA) has almost finished liquidating assets of closed finance companies. It is now adjudicating creditors' claims and distributing proceeds.

#### Recent data show signs of progress:

- **NPLs declined by 24% from a peak in May to Bt 2.07 trillion (\$54.5 billion) in December 1999.** BOT's preliminary estimate of the ratio of NPLs to total loan ratio at the end of December is 38.5% (30.6% for private banks and 61.6% for state banks). The gross reduction in NPLs from October to December 1999 consists of write-offs (11%), transfers to AMCs (23%), payment of principal and accrued interest (23%), and restructuring (43%).<sup>2</sup>

<sup>2</sup> *Several observations* on the BOT's NPL statistics include (see Annex II, Table 1): The net NPL reduction in December 99 of Bt 258 billion (\$6.8 billion) was larger than the NPL reduction in the previous two months, which ranged from Bt 80-95 billion (\$2.1-2.5 billion) per month. New NPLs and reentry of restructured loans to NPL status, at an average of Bt 55-60 billion (\$1.4-1.6 billion) per month, have prevented sharper declines in NPLs. While new NPLs have stabilized at Bt 40-50 billion (\$1-1.3 billion) per month, the reentry of restructured loans to NPL status have increased from Bt 9.8 billion (\$258 million) in October, to Bt 15 billion (\$395 million) in December.

Figure 24: NPLs are falling



- **More private banks show interest in establishing private AMCs.** The BOT released a new regulation, dated January 7, 2000, which allows private banks to transfer loans to their majority owned AMCs at net book value (book value less provisioning currently required under the phased in forbearance program). The phased in forbearance program allows a bank to recognize 60% of their provisioning requirements by December 99; 80% by June 2000 and 100% by the end of 2000. This means that the remainder of the loan losses will be taken in the AMC, not in the bank. This regulation also requires consolidated supervision among a bank and its majority owned AMCs, such that book value transfer pricing does not result in a double counting of capital. Finally, the regulation allows AMCs to engage in more activities, such as lending to borrowers to complement a debt restructuring transaction. As a result, several banks have moved forward in using private AMCs as their strategy for NPL resolution.<sup>3</sup>

<sup>3</sup> Bangkok Bank (BBL) has established a wholly owned AMC with registered capital of Bt 500 million (\$13 million). Initially, this AMC will manage BBL's foreclosed properties. Thai Farmer's Bank (TFB) has established two AMCs: Thonburi will manage the worst one third of its NPLs and Chantaburi will manage NPLs from PHATRA, its recently closed finance company subsidiary. Siam Commercial Bank's wholly owned AMC, Chatuchak Asset Management Ltd., has already been approved by the BOT and is expected to commence operations in April 2000. SCB expected to transfer a total of Bt 26-30 billion (\$684-833 million) distressed assets to its AMC at about 50% discount. SCB has yet to decide whether a third party would be hired to manage its AMC.

- **Some private banks reported small positive operating earnings in Q4 1999 but their earnings were still negative due to continued provisioning for loan losses.** Most banks saw their Q4 interest spread on loans widen from Q3 because of a cut in deposit rates (25-50bps) and an increase in loan restructuring. Banks are now managing better their excess liquidity, thus their spread should improve over time. However the remaining large amount of excess liquidity (Bt 400-500 billion; \$10-13 billion) on bank balance sheets implies that banks may continue to streamline deposit rates to manage their excess liquidity. Loan loss reserves set aside by private banks as of end 1999 have ranged between 70-100% of the end-2000 provisioning requirement (LCP-2000 rule). Market analysts believe the one-year outlook for banks' operating earnings is positive since loan restructuring will continue to show positive results. Two downside risks remain. First, banks are restructuring loans with fixed interest rates over three to five years, thus creating significant interest rate and maturity risk on their balance sheets. Second, the quality and pace of NPLs resolution may be slow due to the magnitude of the problem, banks' unwillingness/inability to quickly clear NPLs from their balance sheets (capital constraints), and the still weak legal regime for debt collection. Therefore, banks' operating profits may continue to be fragile, vulnerable to unfavorable economic conditions (such as a rise in interest rates or the inevitable narrowing of the spread in the medium term), and insufficient for internal recapitalization.
- **Thai Farmers Bank (TFB), ABN Bank of Asia (BOA) and SG Asia Credit (SGACL) successfully raised new capital during Q4 1999<sup>4</sup>.**
- **Thai Military Bank (TMB) postponed its recapitalization plan after its new preferred shares failed to attract foreign interest.** TMB planned to raise a total of Bt 30 billion (\$0.8 billion) in new capital, of which Bt 15 billion (\$0.4 billion) was to come from its application to the Government's August 1998 capital assistance program. However, TMB failed to raise enough matching capital from the private sector. The bank has selected a new advisor, and plans to raise capital from the private market and the Government again this year.
- **The sale of Bangkok Metropolitan Bank (BMB) and Siam City Bank (SCIB) is expected to be finalized in Q2.** The sale of SCIB and BMB has been delayed due to pricing problems. The stock market anticipates that US based New Bridge Group and Hong Kong and Shanghai Banking Corporation (HSBC) are likely to win bids for a 75% stake in SCIB and BMB, respectively.
- **Moody's raises credit rating outlook for five small banks.** Supported by more stable economic conditions and low interest rates, the outlook for the credit ratings of Bangkok Metropolitan Bank, Bank of Ayudhya, Siam City Bank, Thai Military Bank and Industrial Finance Corporation were raised by Moodys from negative to stable.
- **Foreign banks are having a noticeable impact on banking in Thailand.** New innovative distribution channels have emerged (more accessible branches and ATMs, on-line/internet banking) and products and customer services have improved. For the first time foreign banks have access to branch networks. At least two foreign entrants have chosen to compete directly with Thai banks in the middle market, and others will concentrate on the blue chips and wholesale banking.
- **The Department of Land revised down the official land prices in Bangkok areas by 15-20%.** The effect of lower official land prices on banks' provisioning requirements (which are calculated net of collateral) is expected to be minimal since banks use the market price or an appraised value rather than the official price as the benchmark for

<sup>4</sup> TFB raised Bt 23 billion (\$0.6 billion) from its existing shareholders. The proceeds will be used to finance unprovisioned losses recognized when it marked one third of its NPL portfolio to market (approximately 50% of book value), before transferring those assets to its newly established AMC. Bank of Asia successfully raised Bt 13 billion (\$0.3 billion) in November 1999 from its existing shareholders. ABN AMRO has fully subscribed its portion in BOA's capital raising and taken a portion of unsubscribed shares, thereby raising its stake in BOA from 75% to 76%. The government and existing shareholders provided Bt 17.5 billion (\$0.5 billion) in new capital to SGACL, a finance company. The Ministry of Finance agreed to buy Bt 6.2 billion (\$0.2 billion) of preferred shares according to the terms of the Government's August 1998 capital support program. SGACL's two major

shareholders (Société Général (SG) and Bangkok Bank (BBL)) first raised SGACL's capital adequacy ratio to zero through a capital injection, then matched the Government's capital injection.

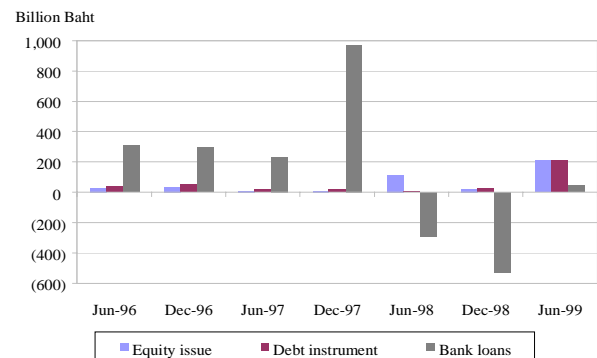
their provisioning needs. The market prices or appraised values of Bangkok land (20-30% drop from peak) have been lower than the official price. Real estate constitutes the vast majority of collateral for the existing stock of secured bank loans. One real estate specialist estimated that raw land constitutes about 30% of the total collateral. A significant downside risk is that appraised values for collateral remain inflated, and therefore provisions for loan losses (calculated net of collateral values) are significantly understated.

- **The Financial Services Task Force is drafting a preliminary report on the medium term strategy for the financial services industry.** The Government's established a Financial Services Task Force that includes senior management of the BoT, the MOF and the SEC and is mandated to develop a five-year strategy for the financial sector. Key messages from their initial work include a level playing field among various financial institutions, prompt exit for weak institutions, market driver consolidation in the financial sector and focus on risk-based and consolidated supervision.
- **Draft laws to reform the financial system are under review.** The Financial Institutions Law would standardize the regulatory framework for banks, finance companies and credit fonciers. The Central Bank Act would strengthen the independence and flexibility of the BoT and enhance its transparency and accountability. The Currency Act would allow the BoT to manage its accounts on a consolidated basis. The MoF is reviewing these drafts. A fourth draft law, the Deposit Insurance Act, has been put on hold pending improvement in the economic environment. The current blanket guarantee for depositors and certain creditors has been maintained.
- **The FRA has almost finished liquidating the assets of closed finance companies.** As of the end of 1999, proceeds from the liquidation of core and non-core assets by the FRA totaled Bt 186 billion (\$5 billion)—27.98% of the outstanding principal balance of Bt 664.8 billion (\$18 billion). The average auction price of core assets was 25.4% of the book value, while that of non-core assets was 53% (see Annex 2, Table 7). The FRA is now adjudicating creditor's claims and distributing proceeds. More than 2,900 creditors, representing

over Bt 920 billion (\$24.8 billion) from the liquidation of 56 closed finance companies, filed their claims for the FRA managed liquidation. The FIDF represents approximately 85% of these claims. Distribution of proceeds for the less complicated cases begins in Q1 2000. The FRA expects to complete the distribution of proceeds to all creditors of 56 finance companies by the end 2000.

- **Primary market activity soars for blue chip borrowers.** Several large firms have borrowed from bondholders in unprecedented amounts. The high cost of loans from Thai banks is driven by the high spreads necessary for the banks to carry their NPLs. Bank loans cost 8-8.75% for floating MLR; three to five years fixed bond rates are now 8-11.5%. Given unprecedented low deposit rates (2.75-3% for savings deposits), savers are hungry for a higher yield. The SEC reported that for the first nine months of 1999, listed companies raised Bt 233 billion (\$6.1 billion), which exceeds the total equity raised during the whole of 1998 of Bt 136 billion (\$3.6 billion). Debenture issuance also became more active, supported by the newly initiated benchmark yield curve. From January to September 1999, Bt 253 billion (\$6.7 billion) of debentures have been raised, eight times the total raised in 1998. The market size as of September 1999 is presented in Annex 2, Figure 9. Credit availability to the middle market and small company sector, however, may be constrained due

Figure 25: Source of Domestic Funding



to their historical reliance on financing from Thai banks, which are currently capital constrained and burdened with high NPLs.

- ***The Public Debt Management Office (PDMO) has been established to manage and monitor government debt.*** The office has already pulled existing resources from the Fiscal Policy Office and the Comptroller General Office. The PDMO is developing an ALM (asset liability management) framework, and is evaluating the status and size of government contingent liabilities which could be fiscalized in the future. These contingent liabilities may come from financial sector restructuring costs, government guaranteed state enterprise borrowing, and potential losses from public concessions.
- ***The Ministry of Finance (MOF) is rationalizing the roles, scope of activities and fiscal treatment of the eight largest government-owned SFIs.*** The draft action plan has been completed. The BoT and the MOF are restructuring the institutional arrangements and revising the prudential standards for supervision of the SFIs. One of the SFIs, the Government Housing Bank (GHB) is seeking to develop a risk management system, including treasury and ALM systems. Once this risk management system is in place, GHB should be able to meet its objective of providing loans to low and medium income customers while controlling interest rate, currency and operational risks. In addition, Government and GHB are planning a centralized real estate information center to address informational inefficiency in the market.

### Challenges ahead

- ***The markets are cautious, given the slow pace of restructuring, which makes for a more difficult environment for Thai banks to raise capital.*** The combination of (1) regulatory forbearance, permitting understated provisioning for loan losses (terminates 12/2000), (2) the capital constrained banking system; and (3) the weak legal regime for collection of debts has had negative impacts on the pace and quality of loan restructuring. Under the current incentives, multiple restructuring events of the same loans may occur (except for the large, syndicated loans with foreign creditors, which are being restructured in a higher quality fashion),

resulting in incremental loss recognition over time and incremental recapitalization efforts by the banks.

- ***The quality of NPL reduction needs to be improved.*** Over the next six months, NPLs could drop substantially due to: (a) transfers to AMCs, wholly-owned by banks or the government; (b) write-offs (slow pace so far); (c) the deadline for the voluntary restructuring of a large number of large loan restructuring under an administrative process monitored by the BOT (namely CDRAC); and (d) better cash flow for debtors in recovering sectors. However, the transfer of NPLs to a bank's wholly-owned AMC does not remove risk from a bank's balance sheet and does not resolve the debt overhang until the restructuring deals are struck with the borrowers. Moreover since banks have the incentive to reschedule their NPLs in order to preserve their capital, problems could re-emerge if economic conditions are not favorable. Finally, anecdotal evidence suggests that banks are writing three to five year low fixed rates on restructured debts, which could significantly hurt future bank earnings if interest rates rise.
- ***Plans for the resolution of KTB's serious NPL and governance problems need to be firmed up and implemented.*** Three issues need to be resolved. First, whether to clean most (90%) of the NPLs out of KTB into an AMC, such that KTB moves towards commercially based corporate governance and eventual privatization, or to leave a substantial portion of NPLs in KTB. Second, whether the AMC (owned by the FIDF) should be managed by third party asset managers with their own money at risk, or whether KTB should retain management. Third, disclosure of the magnitude of losses in KTB (and the AMC).

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## CORPORATE RESTRUCTURING

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### Key Developments

- Debt restructuring accelerated in 1999.
- A differentiated picture on corporate restructuring is emerging across sectors. Manufacturing and services sectors (tradables) are doing better than real estate and construction sectors (non-tradables).
- CDRAC has focused on the restructuring of large viable corporations. Less viable firms and small voluntary workouts are making little progress.
- The activity of the Central Bankruptcy Court has been slow since its inception in June 1999 but appears to have picked up in December 1999.
- Institutional capacity for voluntary restructuring and legal framework is in place. The momentum of continuing reform of regulations and removal of legal impediments needs to be maintained.

### New measures to accelerate restructuring

In response to the slow pace of debt restructuring, the Government has introduced additional policy measures and incentives, and has enhanced the regulatory framework.

- *The government has encouraged commercial banks to establish Asset Management Corporations (AMCs).* In the absence of a central agency with extraordinary powers to undertake debt restructuring on a massive scale AMCs could immediately and effectively resolve non-performing loans.<sup>5</sup>
- *The plan to establish two credit bureaus (Government Housing Bank and The Thai Bankers Association) is awaiting the Credit Information Act.* The Act is currently under consideration by the Parliament. The credit bureaus should help facilitate debt collection and

improve the credit approval process for financial institutions which sign-on as members.

- *The Government is in the process of formulating debt restructuring valuation guidelines for state banks.* The guidelines should deter the potential legal liability of state banks in carrying out debt restructuring, especially regarding principal reduction.
- *CDRAC is increasing its capability to accelerate restructuring through the facilitation of mediation and intercreditor arbitration processes.*
- *The Stock Exchange of Thailand (SET) and the Securities and Exchange Commission (SEC) have facilitated restructuring through proactive suspension and delisting actions against firms in debt restructuring.* The SEC has amended notification requirements for companies involved in a rehabilitation plan. The SET has also revised listing requirements, taking a disclosure-based approach to facilitate listings of firms whose profitability was impacted by the crisis. For SMEs in the Market for Alternative Investment (MAI), the SET has also adopted a disclosure-based approach.

### Pace of Restructuring has Improved

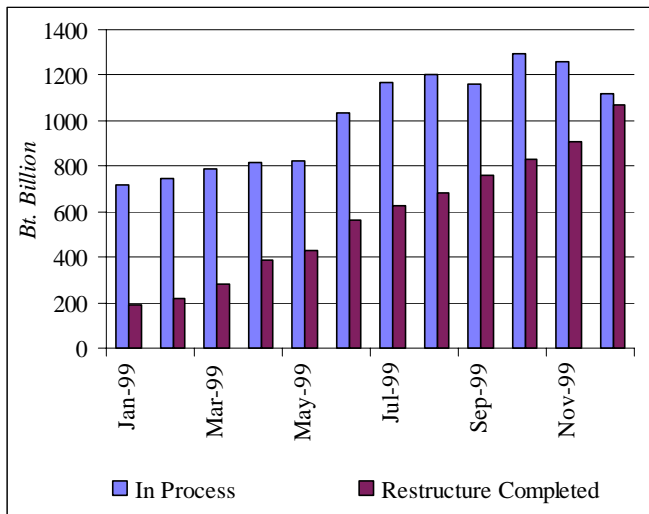
- *Debt restructuring has accelerated.* In 1999, with the improvement in overall economic conditions, and given additional policy measures and structural reforms implemented by the Government, restructuring in the first half of 1999 exceeded Bt 535 billion as compared with Bt 154 million at end-December 1998. During the second half of 1999, stepped up efforts have resulted in over Bt 1,014 billion of corporate restructuring.
- *Restructuring of the corporate sector has proceeded along the market-based strategy,* namely voluntary loan workouts, and ongoing institutional and regulatory reforms to provide incentives for both creditors and debtors.

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<sup>5</sup>The AMCs provide a channel for banks to separate the “good assets” from the “bad assets”, improve the balance sheet and asset quality, and concentrate on future businesses of the “good bank”. To date, 7 of the 11 Thai commercial banks have expressed their intention to establish AMCs.

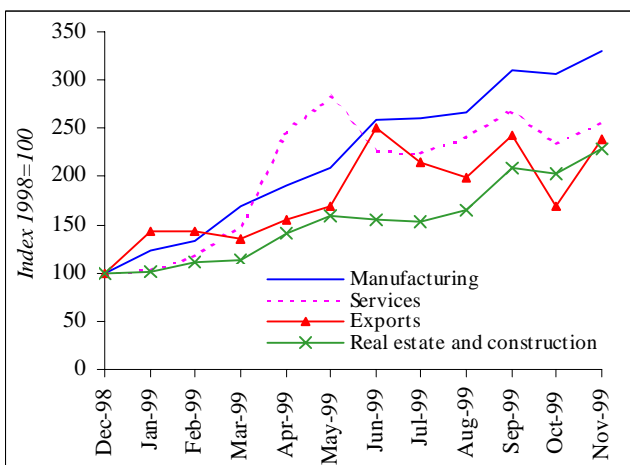
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**Figure 26: Debt Restructuring**



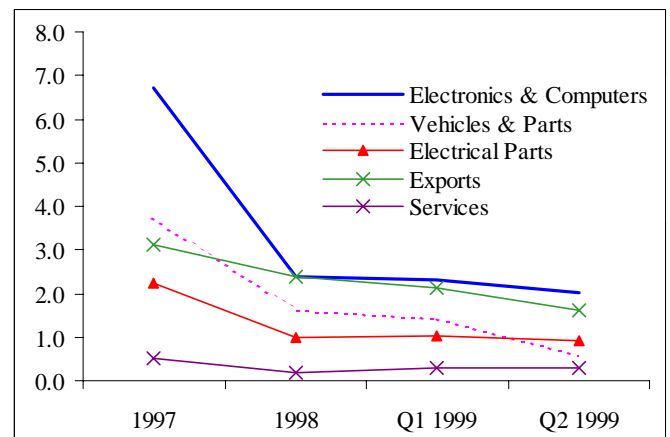
- Restructuring rate is varied across sectors. Manufacturing and services sectors are ahead of the pack while real estate/construction is lagging behind.** Manufacturing and non-financial services sectors have benefited from the export-led recovery. The revival of business activities provided a more conducive environment for restructuring. As a result, restructuring in manufacturing and services has accelerated more than in other sectors. The Bank of Thailand data show that since December 1998 the completion rate (defined as restructuring completed to work in process) is on an upward trend for all sectors.

**Figure 27: Restructuring in manufacturing and services accelerated**

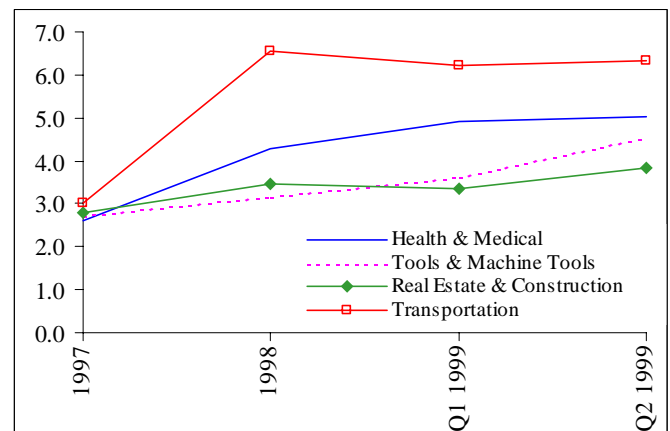


- Significant deleveraging has occurred between 1997 and 1999.** From a sample size of about 400 companies, excluding the financial sector, the average debt to equity ratio has fallen from 3.29 in 1997 to 2.04 in the second quarter of 1999. In particular, electronics and computers, machinery (mostly vehicle and electrical parts), exports, and services sectors have experienced deleveraging of debt in the past two years, resulting from increasing levels of foreign direct investment and the ability to restructure debts.

**Figure 28: Deleveraged sectors**  
(Declining D/E ratio)



**Figure 29: Leveraged sectors**  
(Increasing D/E ratio)



- Nonetheless, other sectors remain highly leveraged.** Despite improving signs of recovery, some sectors remain mired in a highly leveraged financial situation. These include machine tools,

real estate development, health and medical, and transportation. The performance of these sectors has not improved, restructuring has been slow, and new capital inflows have been limited.

- **Cash flow, as measured by the EBITDA/Interest ratio, has improved for the export oriented manufacturing sector.** With the recovery, EBITDA/Interest ratio showed a positive turn-around in cash flow and an increasing ability to service interest obligations in many sectors. The cash flow position has improved remarkably in the manufacturing of electronics and vehicles parts, and also in services and exports. Despite the positive turn-around, there is some concern regarding sustainability of recovery in other sectors such as real estate, textiles, and transportation, where the EBITDA/Interest ratio remained very low or has been volatile since 1997 (Table 1, Annex 3).
- **Capacity utilization in the corporate sector has risen 52% in December 1998 to 60% in December 1999.** This is still considered low compared to the pre-crisis period. In the manufacturing sector, such as food products and petroleum, capacity utilization has increased from 1998 levels. These sectors have started recovering and have grown rapidly in 1999. On the other hand, capacity utilization of the construction materials sector is still far below that of 1997, and the sector is recovering slower than other sectors (Table 2, Annex 3).
- **Business mergers are on the rise.** Between July 1997 and May 1999, there were 130 cases of mergers in Thailand. Of these, 17% occurred in 1997, 65% in 1998, and 18% in 1999. The distribution of the cases across sectors changed from year to year. The financial sector dominated in 1997 and 1998, as there were numerous mergers and consolidations of commercial banks and finance companies. The number of cases dropped in 1999. The automotive sector increased from the lowest number of merger cases in 1998 to the largest in 1999. Meanwhile merger activity in the electronics sector remained steady.
- **FDI played a major role in merger activities, particularly in the machinery and transport, trade and services** (see section Recovery Has Broadened, Figure 8).
- **Business consolidations or mergers are viewed as a market-based tool to aid and accelerate corporate restructuring** (Table 3, Annex 3). More importantly, the excess capacity in certain sectors merits the consideration of mergers. However, so far, mergers between distressed firms have been few. The merger process in Thailand is both time consuming and onerous, requiring six months notice period during which creditors may object to the merger or demand immediate payment. The Civil and Commercial Code and the Public Limited Companies Act require that the two merging entities lose legal status before creating a new legal entity. The tax code for mergers is biased against non-cash transactions (tax liabilities from any realized share premium are payable immediately, even for a share-swap transaction where no shares are sold). In addition, tax losses cannot be carried forward into the merged entity. These impediments must be removed to attract new merger activity in the corporate sectors.

#### CDRAC will need to be more active

- **Debt restructuring in Thailand is conducted through three “channels”:** bilateral negotiations between debtors and creditors, the Corporate Debt Restructuring Advisory Committee (CDRAC), or the Bankruptcy Court.
- **The Office of the Corporate Debt Restructuring Advisory Committee (CDRAC) monitors 1,727 “large target debtors”,** of which 568 firms have signed the Debtor Creditor Agreement (DCR). These 1,727 cases represent over Bt 2.1 trillion (the amount exceeds the total NPLs in the system because CDRAC target cases also include proactive restructuring of non-NPLs).
- **As of January 2000, 271 “target debtors” (Bt 704 billion or 34% of outstanding debt) have successfully reached restructuring agreements,** 357 cases (Bt 436 billion or 21%) are in restructuring process, while 227 cases (Bt 461 billion or 22%) failed to reach agreements and are now in process of court action (Table 4, Annex 3). So far, all cases completing the CDRAC process are performing according to new restructured agreements, and have not reverted back into NPLs status.

### Box 1: Insolvency Law Reform: A Review

**Progress.** The 1998 and 1999 amendments are clearly perceived by the commercial and legal communities as positive achievements. The establishment of the Central Bankruptcy Court is widely acknowledged as a major contribution to an improved bankruptcy regime. It has an adequate number of judges (16) and administrative staff (57), and good facilities. It has established innovative procedures such as continuous hearings to minimize delays due to adjournments, use of depositions as testimony, use of taped recordings, and strict adherence to time limits. While important challenges remain to strengthen its technical capacity and enhance its resources as needed to meet expanded future demand for its facilities, the court is clearly off to an excellent start.

**Low Level of Bankruptcy/Reorganization Cases.** Given that the level of non-performing loans in Thailand is still extraordinarily high (38%), the number of companies covered under the bankruptcy and CDRAC frameworks is relatively insignificant. There are said to be many cases where private negotiations outside these legal frameworks have taken place between corporate debtors and their creditors. Even taking into account the restructuring covered by the CDRAC framework and voluntary, out-of-court arrangements, a legitimate issue for inquiry is why the number of corporate insolvencies filed with the Bankruptcy Court and covered by the CDRAC framework is low.

An effective legal framework is a necessary and important pre-condition for corporate and financial restructuring. Addressing key issues in this regard will facilitate improved corporate and financial restructuring. However, in and by itself, this will not necessarily lead to increased use of the legal mechanisms because resort to formal legal mechanisms is determined by a variety of economic, financial, commercial and socio-cultural and political factors.

The key issues requiring urgent attention for strengthening the legal framework are outlined below.

**(1) Absence of Effective Debt Collection and Security Enforcement.** In Thailand, debt recovery and security enforcement mechanisms *outside bankruptcy law* (such as foreclosure of mortgages) are subject to extensive delay and inefficient processes. This has two consequences. *First*, there is little advantage or incentive for debtors to seek protection under bankruptcy laws (through for example, reorganization) because they do not face an effective and immediate threat of loss of assets from creditor recovery actions through proceedings *outside* bankruptcy law. *Second*, creditors are seeking to use remedies under the bankruptcy law to collect debt even where they should properly be using other debt recovery and/or security enforcement mechanisms (such as foreclosure of mortgages). For this reason, creditors understandably demand the lowest possible criterion for insolvency to facilitate their filing of bankruptcy actions against debtors.

**(2) Combination of Personal and Corporate Insolvency Remedies.** Under the current law, personal insolvency, corporate bankruptcy and reorganization are dealt with in the same law and the same test of insolvency applies to all three cases. Under Thai law and culture, personal insolvency carries a severe social and moral stigma with punitive consequences on the individual prescribed in the bankruptcy and other laws. For example, bankruptcy is described as a “restriction of rights and liberties of persons” in the preamble to the Bankruptcy Act (No. 5), B.E. 2542 [1999]. Therefore, courts are quite reluctant to adjudge debtors as insolvent. This, in turn, colors and affects the employment of the bankruptcy law in relation to corporate debtors. It results in an equally cautious and conservative approach by courts to important areas of the law such as, for example, the interpretation of the entry criterion for insolvency.

**(3) Criterion for “insolvency”.** The original Thai text in the 1940 Bankruptcy Act establishes a criterion for insolvency that may be literally translated as “excessive indebtedness”. There have been very few instances between 1940 and 1997 in which courts have had to interpret this criterion. In three cases dating from before the introduction of the reorganization provisions -- two involving individual insolvencies -- the Supreme Court interpreted this criterion as “liabilities being greater than assets.” Although, as a civil law jurisdiction, the doctrine of precedent does not apply to Thai courts, the Supreme Court, lower civil courts and the Bankruptcy Court have followed these decisions.

This criterion has been applied by courts so as to allow valuation of assets beyond the audited balance sheet, including by recognizing capitalization of future income streams and cash flow. However, the criterion does not allow for a consideration of a vital aspect of a well-accepted and practiced criterion for insolvency, namely, the *ability* of a debtor to meet, from its own resources, debts as they fall due. As a result, corporate debtors whose assets exceed liabilities but unquestionably lack the ability to pay their debts as they fall due cannot be reorganized, except through consensual proceedings (although even those may be in some doubt). The above interpretation/application of the legislative standard could be seen as an evolving approach rather than as settled jurisprudence, and that the development by courts of an expanded criterion that goes beyond the “assets/liabilities” test and allows recognition of the inability of debtors to pay debt would be possible, although unlikely.

The adoption of a very conservative test of “insolvency” means that creditors lack any effective means to encourage a debtor corporation to volunteer for reorganization. It has also effectively constrained debtors from applying for reorganization because they are required to admit insolvency, with all the negative consequences referred to earlier.

**(4) Debtor’s Loss of Control.** Under the reorganization process, it is possible that, even in a consensual or voluntary case, a corporate debtor will lose total control of management and the process regarding proposal of a reorganization plan. Also, shareholdings of family-owned corporations may be heavily diluted. There is a strong view that these considerations act as important deterrents to corporations volunteering for possible reorganization. The relative degree of control by planner, debtor and creditor during the reorganization process is a matter of policy choice and may be appropriately adjusted to respond to the concerns of debtors and creditors. However, more extensive use of the bankruptcy and reorganization processes are unlikely until debtors accept some degree of loss of control and ownership dilution.

**(5) Appointment, Qualification, Position and Power of the Planner.** There appears to be considerable dissension between on the one hand, creditors, and on the other, corporate debtors, over a wide range of issues concerning the planner. This causes delay, impasse, and possibly, inability to reach resolution.

**(6) Other Issues.** The need to handle reorganizations of groups of corporations on a consolidated basis, and the desirability of employing private sector professionals as receivers, and the need to provide for a means to convert a failed reorganization process (i.e., where the plan is not approved) into a bankruptcy process.

- ***The completion rate of CDRAC cases is expected to increase in the next 4 months.*** Three-hundred and fifty-seven cases (Bt 437 billion or 21% of total outstanding) currently in the debt restructuring process will either successfully reach agreements or revert to court action. This would potentially substantially reduce NPLs in the Thai banking system.
- ***Banks remain capital constrained, and bankers are reluctant to recognize losses.*** As a result, (1) debt reduction (the so called “hair cut”) is rarely a part of the settlement, and extension of maturity (rescheduling), interest rate reduction, debt to equity conversion, injection of new capital by the debtor or new investor are typical outcomes; (2) banks have been reluctant to use available legal options to force debtors to restructure debts; and (3) only the viable sectors have been restructured.

#### Progress on Court-Supervised Debt Restructuring

- ***Through December 1999, under the new and specialized Central Bankruptcy Court, 441 petitions were filed,*** of which 416 were smaller liquidation cases with a total value of Bt 10.5 billion. A total of 25 reorganization petitions have been accepted by the court, with a total value of Bt 153 billion. Three petitions have been rejected, and 14 petitions are work-in-progress. To date, 8 restructuring plans have been approved by creditors (Table 5, Annex 3).
- ***Banks do not appear to be filing petitions for bankruptcy or reorganization in numbers commensurate with the magnitude of distressed loans.*** This has undermined the potential leverage created by the amendments in March 1999. The reasons for the low utilization are several: banks place high value premium on the relationship with customers, and therefore, are reluctant to expose customers to potential bankruptcy and liquidation; uncertainty over naming the planner and therefore controlling the bankruptcy; and, reluctance to allocate power and authority over both operational and management to the planner.
- ***The court recently declared a large corporate debtor insolvent and allowed the case to proceed towards bankruptcy.*** This marks a major milestone in the bankruptcy court’s ruling in favor

of creditors and further illustrates that the current insolvency regime can be made applicable to large corporate debtors.

#### Challenges Ahead

- ***The most significant downside risk is the excessive maturity rescheduling*** as opposed to debt restructuring based on assessment of sound cash flow projections, specially among state banks, and the slow progress of restructuring, particularly of the non-listed firms.
- ***CDRAC needs to take a more active role in contentious cases,*** supported by appropriately skilled personnel and administrative functions. CDRAC will likely require more resources devoted to analysis, credit facility structure, legal, mediation, and arbitration.
- ***Development of infrastructure support must be accelerated.*** The establishment of Credit Bureaus is vital to the evaluation of debtors’ credit worthiness. SET delisting warning should be the consequence of failure to reach an agreement in CDRAC. Legal framework reforms such as foreclosure, insolvency, and mergers regimes must be strengthened (see Box 1 on Insolvency Law Reform).
- ***The outlook for the first half of year 2000 remains uncertain.*** The pending CDRAC work-in-progress that is approaching the deadline and the potential NPLs re-entry may cause a swing in debt restructuring and NPLs either way. Success cases will significantly reduce the overall NPLs, while failure in CDRAC is bound to delay the recovery of the Thai economy.
- ***The Government should expand its ongoing work for the comprehensive reform of bankruptcy and related laws to address the following issues:*** (1) Separation of personal insolvency from corporate insolvency and reorganization; (2) Expansion of the criterion of insolvency to bring the current test for insolvency fully in line with international best practice, covering the general inability to pay debts when they fall due; (3) Revision of provisions governing control to enable a debtor to maintain some power over corporate management whether or not the debtor’s management is the planner or plan

administrator; (4) Revision of the provisions governing reorganization plans to involve debtors in the preparation of the plans in the event that its nominee is not the planner; (5) Reconsideration of the criteria for appointment, position, power, and payment and indemnification of planners. As an interim measure, consideration should be given to the introduction of a separate criterion for debtors and creditors to commence reorganization proceedings. Pending the above more comprehensive review, consideration should be given to the establishment of *'the general inability to pay debts as they fall due'* – an international best practice benchmark -- as the criterion for *corporate reorganization* in place of the present criterion (and thus no admission of insolvency by the debtor would be necessary). This criterion should *not* be extended to personal insolvency or corporate bankruptcy until the issue of the social and financial stigma arising from insolvency is addressed because, unless this is done, courts are likely to apply any new criterion as narrowly as possible for reasons discussed above.

- ***The Government also needs to urgently strengthen the debt-collection and security enforcement processes for reasons discussed earlier.*** The Government will need to consider what actions will be needed in addition to the November 1999 revisions of the civil procedure laws and the ongoing revisions of secured lending laws governing moveable property.

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## IMPROVING CORPORATE GOVERNANCE

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### Key Developments

- The government reform strategy has so far focused on streamlining institutional arrangements, enhancing reliability of financial information and disclosures, improving corporate boards' oversight and effectiveness, increasing shareholder rights, and improving the legal and regulatory framework for enforcement of laws and regulations related to public companies.

### Progress in Corporate Governance

**Overall progress has been good.** Accounting standards consistent with international best practice have been adopted. Improved guidelines on the code of best practice for listed company directors have been issued. All listed companies are now required to have an audit committee of the board of directors. An Institute of Directors has been established. The regulatory framework for enforcement of regulations related to public companies is being streamlined.

- ***Efforts are underway to strengthen institutions*** responsible for ensuring compliance, including the professional institutes, and to improve and enforce necessary mechanisms such as the code of ethics, the code of conduct for accountants, and the code of best practices for directors. Amendments to the Accountants' Professional and Accounting Acts will allow establishment of the Thailand Financial Accounting Standard Board and enhance the role of the Institute of Certified Accountants and Auditors of Thailand.
- ***Thai corporate governance has largely been self-regulatory.*** Going forward, it is important to ensure that a proper balance is maintained between self-enforcement and effective enforcement of regulation by regulators. While self-regulation is desired and ideal, enforcement by outside shareholders, and effective enforcement of regulations and legislation can help change corporate culture and business practices and can pave the way for effective self-regulation in the long run.

***Minority shareholders' rights must be strengthened,*** and accountability and liability of directors in the case of breach of duty must be further clarified. The proposed amendments to the Public Companies Act (PCA) and the Security and Exchange Act (SEA), which will improve provisions related to duties and accountabilities of directors and officers, protection of shareholder rights, and enforcement of these measures, should improve incentives and the business environment. However, reform needs to go beyond the provision of laws and regulations. Improving enforcement is critical.

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Table 3:

## Financial Accountability And Corporate Governance Reform In Thailand And Korea - Progress Report

Reform Measure	Thailand	Korea
<b>1. Rationalize the institutional framework for setting standards and regulating accounting and auditing practices</b>	<ul style="list-style-type: none"> <li>• Cabinet approved a plan to establish TFASB and strengthen ICAAT</li> <li>• Amendments to Accountant's Professional and Accounting Acts under way</li> </ul>	<ul style="list-style-type: none"> <li>• Adopted a plan to establish KASB and strengthen KICPA. Established KASB in September 1999</li> <li>• Amendments to relevant laws and regulations under way</li> </ul>
<b>2. Improve the quality and reliability of key financial and non-financial information provided by public corporations</b>	<ul style="list-style-type: none"> <li>• Issuance of certain new and revised accounting and auditing standards</li> <li>• Preparation and audit of financial statements prepared in accordance with international standards in 1999</li> <li>• Issuance of new specific rules on accounting and auditing for banks and SFIs under way</li> <li>• Enforcement of enhanced disciplinary measure for accountants under way</li> <li>• Improvement of listing rules under way</li> </ul>	<ul style="list-style-type: none"> <li>• Issued revised and new accounting and auditing standards</li> <li>• Preparation and audit of financial statements in accordance with international standards in 1999</li> <li>• Issued specific accounting standards for commercial banks</li> <li>• Enforcement of enhanced disciplinary measures for accountants under way</li> </ul>
<b>3. Improve accountability of boards of directors and management, and increase minority shareholder rights of public corporations</b>	<ul style="list-style-type: none"> <li>• Conducted a comprehensive review of duties and accountabilities of officers and directors, protection of shareholder rights, and sanctions</li> <li>• Cabinet approved framework for changes to PCA and SEA</li> <li>• Amendments to PCA and SEA under way</li> </ul>	<ul style="list-style-type: none"> <li>• Conducted a comprehensive review of duties and accountabilities of officers and directors, protection of shareholder rights, and sanctions</li> <li>• Amended relevant laws and regulation</li> </ul>
<b>4. Strengthen the financial oversight role of boards of directors of listed corporations</b>	<ul style="list-style-type: none"> <li>• Reviewed existing requirements for the audit committees of the boards of directors</li> <li>• Revised guidelines on the code of best practice</li> <li>• Improvement of audit committees of the boards of directors and internal control to be consistent with international best practice under way</li> </ul>	<ul style="list-style-type: none"> <li>• Reviewed existing requirements for the audit committees of the boards of directors</li> <li>• Adopted a plan to amend laws and regulations</li> <li>• Introduction of audit committees of the boards of directors in year 2000</li> </ul>
<b>5. Rationalize the regulatory framework and improve enforcement of laws and regulations for public corporations</b>	<ul style="list-style-type: none"> <li>• Reviewed roles and responsibilities of SET, SEC, and MOC</li> <li>• Clarified enforcement arrangement in effect</li> <li>• Amendments to the PCA and SEA to support the arrangement under way</li> </ul>	<ul style="list-style-type: none"> <li>• Amended relevant laws</li> <li>• Strengthened enforcement</li> </ul>

**Abbreviations:**

ICAAT: Institute of Certified Accountants and Auditors of Thailand

MOC: Ministry of Commerce

KASB: Korea Accounting Standard Board

KICPA: Korea Institute of Certified Public Accountants

PCA: Public Companies Act

SEA: Security and Exchange Act

SEC: Security and Exchange Commission

SET: Stock Exchange of Thailand

TFASB: Thailand Financial Accounting Standard Board

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## Challenges Ahead

- ***The process for amending laws related to public companies has been slow.*** The proposed amendments to the Public Companies Act and the Security and Exchange Act need to be submitted to the Parliament and enacted in order to significantly improve shareholder rights and the ease with which they exercise those rights. These amendments will improve protection of outside shareholders against conflict-of-interest transactions benefiting insiders, accountability of directors to shareholders, and administrative enforcement mechanisms by regulators.
- ***Enactment of the pending legislation to allow establishment of the Thailand Financial Accounting Standard Board needs to be expedited by the Parliament.***
- ***Securities regulators need to be further strengthened with the power to pursue cases of false and misleading disclosures, or cases where insiders have violated disclosure rules or procedural protections.***
- ***The most critical challenge is in implementation-in changing the culture of minimal disclosure to one of adequate disclosure.*** This goes far beyond the mere adoption of international accounting and auditing standards; it involves setting mechanisms and strengthening institutions in order to ensure that these standards are applied properly in practice. The objective is to change corporate culture by closing the gap between standards and practices.

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## STATE OWNED ENTERPRISE REFORM AND PRIVATIZATION

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### The setting

In September 1998, the Thai cabinet approved a Master Plan for State Enterprise Sector Reform which called for sweeping reforms in Thailand's long state dominated telecommunications, transport, water and energy sectors, along with or partial divestiture of operations of another 29 enterprises in commercial and industrial sectors.

On the heels of the 1997 economic crisis in Thailand and the efforts at financial sector reform, the Master Plan, as it has come to be referred to, set out an overall framework for reforms in each sector and for a total of 59 state enterprises.

Thailand has a sizable private sector investment in infrastructure including a number of privatized toll roads, a recently commissioned sky-train system, leased port facilities and a pending public-private partnership for the operation and maintenance of the first subway line. A substantial Independent Power Producer (IPP) program is under implementation. A few Build Own Operate (BOT) water treatment plants have been contracted in the water sector and others are under negotiation, and substantial private sector investment has taken place through Build Transfer Operate contracts in the telecommunications sector. However, state investments dominate and markets are not yet sufficiently liberalized and open for effective competition. Also, tariff and cost recovery issues continue to hinder private participation, for example, BOT water supply projects in the water sector and bus transport.

### Key Developments

- Enactment of the Corporatization Act is a key development and will enable state enterprises to rapidly corporatize and set up mechanisms, and review processes and requirements for privatization.
  - The NTC Act has been passed by the Parliament in January 2000 and the establishment of an independent regulator for telecommunications is expected in Year 2000. In October 1999 the SEPC approved a framework for settling and unwinding concessions agreements with private sector which require revision before domestic market liberalization can be achieved. The cabinet has recently issued a resolution specifying guidelines for the concession.
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**Table 4: SOE Key Reform Initiatives and Progress to Date**

Sector	Key Reform Initiatives September 1998	Progress Made As of January 2000
Telecoms	<ul style="list-style-type: none"> <li>• Creation of independent regulator, National Communications Commission (NTC).</li> <li>• Domestic market liberalisation by October 2000.</li> <li>• Corporatisation and privatization of the dominant SOEs, the Telephone Organisation of Thailand (TOT) and the Communications Authority of Thailand (CAT). Privatization to commence with sale of approximately 25% in year 1999/2000.</li> <li>• Full market liberalisation by 2006 in accordance with WTO.</li> </ul>	<ul style="list-style-type: none"> <li>• NTC Act passed by Parliament in January, 2000. Regulator to be established shortly.</li> <li>• Domestic market liberalisation projected by December 31, 2000.</li> <li>• TOT and CAT corporatisation plans in place. Corporatisation expected in 2000. Initial share sales expected in 2001.</li> </ul>
Energy	<ul style="list-style-type: none"> <li>• <b>Electricity sector</b> restructuring, including: <ul style="list-style-type: none"> <li>➤ Creation of power pool.</li> <li>➤ Formation of independent regulator.</li> <li>➤ Privatization of Electricity Generating Authority of Thailand (EGAT) generating assets beginning with Ratchaburi Power Plant.</li> <li>➤ Subsequent privatization of distribution (Metropolitan Electricity Authority (MEA), Provincial Electricity Authority (PEA)).</li> </ul> </li> <li>• <b>Gas</b> <ul style="list-style-type: none"> <li>➤ Separation of state-owned Petroleum Authority of Thailand (PTT)'s gas trading from distribution functions.</li> <li>➤ Creation of third party access regime.</li> <li>➤ Formation of independent regulator.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Electricity Sector</b> <ul style="list-style-type: none"> <li>➤ Design of power pool and detailed sector restructuring to be completed in 1<sup>st</sup>Q 2000.</li> <li>➤ Legislation to create regulator being drafted for introduction to parliament in 2000.</li> <li>➤ Ratchaburi power plant privatization under revision, privatization rescheduled for 2000 (see below).</li> </ul> </li> <li>• <b>Gas</b> <ul style="list-style-type: none"> <li>➤ Cabinet approved separation of PTT gas trading and distribution.</li> <li>➤ Third party access regime now being defined.</li> <li>➤ Determination of single or separate electricity and gas regulators to be made in 2000.</li> </ul> </li> </ul>
Transportation	<ul style="list-style-type: none"> <li>• Restructuring of governmental institutions, creation of independent regulators.</li> <li>• Privatization, partial privatization or restructuring of 14 SOEs including, Thai International Airways, Airports Authority of Thailand, Port Authority of Thailand, Bangkok Mass Transit Authority (urban buses), State Railway of Thailand (SRT).</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed plan for sector restructuring completed in April 1999, Cabinet approval expected 2<sup>nd</sup>Q 2000.</li> <li>• 23% Share sale of Thai rescheduled for 2000 (see below).</li> <li>• PAT privatization plan to be finalised 2<sup>nd</sup>Q 2000.</li> <li>• Restructuring/privatization study of SRT to complete in 3<sup>rd</sup>Q 2000.</li> <li>• Urban bus privatization/restructuring to commence in 2000.</li> </ul>
Water	<ul style="list-style-type: none"> <li>• Restructuring and privatization of Metropolitan Water Authority (MWA).</li> <li>• Restructuring and privatization of Provincial Water Authority (PWA).</li> </ul>	<ul style="list-style-type: none"> <li>• Study commissioned under World Bank funding to prepare privatization plans for MWA &amp; PWA, results expected 3<sup>rd</sup>Q 2000.</li> </ul>

Source: Government of Thailand

### Detailed sector and reform plans have been prepared in the energy sector and transport sectors

The transport plan calls for the creation of 5 modal regulators and the reform and/or privatization of some 14 state enterprises in the sector. The energy sector plan details requirements for creation of a power pool, which is close to completion. EGAT has announced the formation of a holding company for the Ratchburi power generation plant and partial share sales are expected in September 2000.

### Progress in legal and regulatory reforms and transactions

The Government's strategy lays strong emphasis on structural reforms in the infrastructure sectors, and the establishment of a regulatory framework in the various sectors. A guideline action plan for creation of regulatory bodies is in development. Progress has been made in setting regulatory guidelines for some sectors, and in detail restructuring plans for the

Telecommunications and energy sectors. The energy sector has been selected to draft the first legislation under the guidelines.

A drafting committee is now being formed. Legislation is expected to be presented to Parliament in the first half of 2000. A plan for institutional reform, and restructuring of the transport sector (aviation, maritime and land transport) is also under review.

- **Legal Reforms.** Enactment of the Corporatization Act, 1999, is significant in facilitating corporatization and private participation in state enterprises. The enactment of the Alien Business Act and the Act on Leasing of Property for Commerce and Industry, both in 1999, is significant in promoting foreign direct investment and greater liberalization. Other legal requirements to enable market liberalization need to be accelerated.

**Table 5: Privatization: Year 2000 Anticipated Accomplishments**

<p style="text-align: center;"><b>Transactions</b></p> <ul style="list-style-type: none"> <li>• Thai</li> <li>• Ratchaburi</li> <li>• Bangchak</li> </ul>	<p style="text-align: center;"><b>Notes</b></p> <ul style="list-style-type: none"> <li>• 23% share sale, PO, strategic stake or combination</li> <li>• 51% or more share sale, most likely domestic IPO</li> <li>• 32% share sale, likely to be at least 16% domestic PO</li> </ul>
<p style="text-align: center;"><b>Other Key Enterprise Actions</b></p> <ul style="list-style-type: none"> <li>• Corporatisation of TOT and CAT (telecoms)</li> <li>• Corporatisation of Airport Authority of Thailand</li> </ul>	<p style="text-align: center;"><b>Notes</b></p> <ul style="list-style-type: none"> <li>• Preparation for share sales in 2001</li> <li>• Preparation and possible sale of shares in 2000</li> </ul>
<p style="text-align: center;"><b>Key Sector Actions</b></p> <ul style="list-style-type: none"> <li>• Cabinet approval of power pool design and creation</li> <li>• Energy sector regulatory act to parliament</li> <li>• Creation of NTC</li> <li>• Conversion of certain Telecommunications BTO concessions</li> </ul>	<p style="text-align: center;"><b>Notes</b></p> <ul style="list-style-type: none"> <li>• Design due in Q2 2000</li> <li>• Drafting underway</li> <li>• Telecoms regulator expected 2<sup>nd</sup> Q 2000</li> <li>• Needed to enable domestic market liberalisation- Year 2000</li> </ul>

Source: Government of Thailand

- **Regulatory Reform/Development.** Substantial progress has been made in the development of guidelines for creation of regulators in Thailand. These set out the key foundations of regulation, namely, commission structure, appointment or dismissal procedures, qualifications, funding of the regulators, reporting responsibilities, consumer protection and dispute resolution. The guidelines will provide an outline for the drafting of specific legislation. However, this specific legislation may take several months to pass, once drafted and approved by the committee.
- **A series of seminars and conferences have been held on regulation as a means to educate** members of the Regulatory Subcommittee, line ministries, members of parliament, the academic community, and enterprises.
- **Fast-track state-owned enterprises were identified by the government where private participation could be rapidly increased.** While the program has faced considerable delays, the sales process has begun for certain key SOEs. Sale of 23% of the shares of Thai International Airways (bringing government ownership to 70%) is expected in 2000. The Ratchaburi power plant and a partial share sale for the Airport Authority of Thailand is also expected in year 2000. Enterprises preparing for share sales in 2001 include the Telecommunications Organization of Thailand (TOT) (domestic fixed lines), Communications Authority of Thailand (CAT) (international), the Petroleum Authority of Thailand (PTT) and the Port Authority of Thailand (PAT). Key accomplishments to look for in the year 2000 are listed in Table 5.

#### **Pace of reforms differs by sector**

Progress in regulatory reforms is mixed. Power, petroleum and communications sectors are in the lead, however each has encountered obstacles in its progress. While lagging, water and railways organizations are now in the process of retaining advisors to develop restructuring and options.

- **Telecommunications sector.** The NTC Act was passed by the parliament in January 2000. The regulator is expected to be established shortly. The conversion of existing build-to-operate (BTO)

concession contracts essential for full liberalization of the sector remains one of the most challenging issues. Thai telecommunications SOEs entered into BTO concession contracts with private sector companies in the early to mid-1990s. This led to substantial expansion of network, cellular and, satellite services. The concessions provided for revenue sharing with the SOEs. With the economic downturn, the revenue sharing requirements became unsustainable burdens for many of the concessionaires. Further, the concessions, many of 20 plus years, provide concessionaires with exclusive rights to certain services and markets. A series of studies have been conducted on how/if to convert the concessions. Cabinet has recently issued a resolution specifying guidelines for the conversion of TOT and CAT concessions. Target is to complete concessions by the time the telecommunication market is to be opened to domestic new entrants, that is, about October/November 2000.

- **Water sector.** Government is undertaking a comprehensive water sector reform and plan. The RFP was issued in November 1999 and the study is expected to begin in March of 2000.
- **Transport sector.** A comprehensive Transport Sector Framework reform study was undertaken and completed in April 1999. The report provides a framework for improved policy and planning in the transport sector, development of transport subsector regulators, and the direction of reform for the 14 enterprises in the sector. A restructuring and study for the State Railways of Thailand is expected to be completed in the third quarter of 2000.
- **Energy.** NEPO hired consultants to prepare the detailed plan for transition to a power pool. The study is expected to be completed in the first quarter of 2000. The legal and regulatory structure is under consideration with recommendations expected by mid 2000. Private participation has been successfully introduced through the Independent Power Producer (IPP) and Small Power Producer (SPP) programs. Divestiture in

**Box 2:****THAILAND: Implementation of the Business Competition Act**

The distortion of competition in key markets has been suggested as one overlooked contributing cause to the corporate crisis that hit Thailand in 1997. A mix of government policies and business anti-competitive arrangements were identified as critical factors in misguided decisions regarding investment, capacity production, profits, and fundamentally, prices.

The adoption of measures aimed at restructuring the corporate sector and opening-up markets to further competition will reduce the ability of dominant firms to foreclose competitors, allocate markets, and impose or fix prices as they have to face new sources that challenge profitability. However, there are still a number of markets where competition will continue to be affected due to either geographical consideration, lack of participation as a result of uncertainties in the business environment, or high sunk costs for firms to break-in markets. In such markets, there is the potential that anti-competitive business practices would entrench the power of inefficient firms at the expense of smaller competitors and consumers. During the transition from economic crisis, a record of mergers and acquisitions has taken place, and a number of firms have recovered dominant positions. Despite some complaints about abuse of monopoly power in key sectors, there has been no public action to correct such behavior.

To address these issues, GOT enacted in March 1999 the Business Competition Act and created the Trade Competition Commission (TCC), replacing the Price-Fixing and Antimonopoly Act of 1979 and the Central Committee on Price Fixing and Antimonopoly, respectively. The main provisions and enforcement mechanisms of Thailand's new Act target a wide range of behaviors treated under statutes and jurisprudence of traditional market economies such as the United States, Canada, Australia, and the European Union, including horizontal and vertical restraints, abuse of dominant position, and mergers and acquisitions. The Act also grants authority to TCC to examine Government measures that restrict the ability of firms to carry out business activities.

A concern voiced by numerous commentators and practitioners is that the new Act may be providing an additional mechanism for intervention in the economy, which may stifle rather than enhance competition. The validity of such concern arises out of a general perception that Government institutions in Thailand lack competence and are often hostage to special interests. Thus, for some, it is feared

that a lack of specialized staff, institutional knowledge and tradition of analytical rigor, would lead TCC to take actions against efficient but politically unpopular firms and industries, promote the private interests of local firms, or impinge on the freedom and rewards that markets are supposed to bestow.

Addressing the aforementioned concerns and ensuring TCC's effectiveness represent key priorities for GOT. In doing so, GOT is committed to:

- maintaining a vigorous but minimalist approach to markets and businesses with a focus on behavior based on actual exercise of market power, and not on the mere holding of a position of dominance or monopoly.
- developing clear and transparent mechanisms to assess the extent and impact of anti-competitive business practices in the economy, and identify whether such practices originated as a result of public policies or private arrangements.
- developing knowledge and policy approaches to competition in selected sectors and industries; regulated industries and natural monopolies; and interactions between competition policy and intellectual property rights, regulatory reform, and trade and investment liberalization.

Progress in this area largely relies on the effective implementation of the Business Competition Act, including institutional arrangements. Such a process is in its early stages. TCC has recently been established and the commissioners and management have been recently appointed. The GOT, with the support of the World Bank, is currently developing a comprehensive technical assistance program to strengthen the functional capacity of TCC, with a focus on four immediate tasks:

- Design of a clear set of regulations, administrative guidelines, and interpretation documents on anti-competitive agreements, abuse of dominant position, and mergers.
- Training of TCC's senior management and staff to apply the Act.
- Development of a policy and enforcement approaches.
- Dissemination of information on the goals and scope of the competition law-policy among public, academia, consumers and businesses.

other power plants has begun. The sale of the Ratchaburi power plant after much delay is expected to take place in September 2000, although employee issues need to be fully addressed.

#### **Corporate governance and performance monitoring are key successful reforms**

- *The Corporatization Act will enable the appointment of new and more business oriented boards to the SOEs.* Good governance of the SOEs will be important. Standardized SOE data is not easily available. The Ministry of Finance is implementing a Management Information System to collect and report standardized SOE data.

#### **Challenges ahead**

- *Progress on SOE reform has been mixed.* The implementation of the Master Plan has been slow compared to what the Government had initially contemplated.
- *Institutional capacity to continue the reforms needs strengthening.*
- *Employee interests need to be protected. In the absence of safety nets and training programs, employee resistance is likely to increase.* The government has entered into a dialogue with labor on key issues in the program. As part of the effort to address employment impacts, the Ministry of Finance has been preparing a series of proposals on severance pay, early retirement, training, and shares distribution to employees. These are being reviewed in turn by the SEPC.
- *The first regulator will be set up this year in the telecoms sector.* There exists a risk of regulatory failure or industry capture, due to lack of sufficient experience of staff, and overwhelming resources of private industry players. Regulatory frameworks for sectors such as water and transport need to be fast tracked.

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## **PUBLIC SECTOR REFORM**

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### **The setting**

Improving governance through enhanced public sector management is the hallmark of Thailand's three-year Public Sector Reform Program. The Reform Program involves both central agencies and line ministries such as education and health, which have embarked upon substantial reforms to improve government decision making, deliver better services, and enhance transparency and accountability.

### **Key Developments**

- Memoranda of Understanding have been signed between the Bureau of the Budget and seven ministries or agencies and methodologies for activity-based costing are being developed.
- Over 30,000 public employees (roughly three-quarters of those eligible to participate) have chosen early retirement as part of the Government's rightsizing program.
- The Decentralization Act became effective in November 1999.
- Anti-corruption surveys of businesses, households and public officials are currently being conducted.

### **Expenditure Management**

- *The economic crisis strained Thailand's budget system and revealed several structural weaknesses.* These include (i) weak linkages among planning, budgeting and sectoral policy; (ii) ineffective targeting of expenditures towards the country's development objectives; (iii) insufficient fiscal transparency; and (iv) excessive line-item expenditure controls. Thailand's program supports organizational and policy changes augmented by technical assistance in the Bureau of the Budget and selected line ministries.
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**Table 6: Recent Developments in Thailand's Public Sector Reform Program**

REFORM AREAS	LEAD AGENCIES	PRIORITIES	RECENT REFORM ACTIONS TAKEN
Expenditure Management	Bureau of the Budget  Selected Line Ministries (Education, Health, Commerce)  Ministry of Finance	<ul style="list-style-type: none"> <li>▪ Implement performance-based budgeting for line ministries</li> <li>▪ Strengthen the capability of central agencies to review and evaluate sector policies and performance</li> <li>▪ Improve fiscal transparency</li> </ul>	<ul style="list-style-type: none"> <li>▪ Workshop on Budget Reform provided training for over 200 government officials in November 1999</li> <li>▪ Memoranda of Understanding have been signed between the BOB and 7 ministries/agencies; methodologies for activity-based costing are being developed as part of the "hurdle approach"</li> <li>▪ The Comptroller General's Office and the Fiscal Policy Office have begun analyzing fiscal transparency</li> </ul>
Human Resource Management	Office of the Civil Service Commission  Selected Line Ministries (Education, Health and Commerce)	<ul style="list-style-type: none"> <li>▪ Develop detailed programs to align organizational structures of line ministries with their new functional objectives</li> <li>▪ Match staffing profiles and numbers to new functional requirements of civil service and contain cost of government</li> <li>▪ Develop modern performance-based human resource management systems for civil service</li> <li>▪ Develop well-motivated, politically neutral, cross-governmental senior cadre to lead civil service renewal program</li> <li>▪ Develop regulatory framework for autonomous public organizations (APOs)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Over 30,000 public employees have chosen early retirement as part of the Government's rightsizing program</li> <li>▪ The OCSC has launched the PRINCE project to monitor the government-wide performance of the Public Sector Reform Program</li> <li>▪ Options for establishing a Senior Executive Service are being analyzed</li> </ul>
Revenue Management	Revenue Department	<ul style="list-style-type: none"> <li>▪ Improve taxpayer compliance</li> <li>▪ Strengthen collection enforcement</li> <li>▪ Balance business and Information Technology (IT) priorities</li> </ul>	<ul style="list-style-type: none"> <li>▪ An automated audit case selection system is being developed to enhance revenue collection</li> <li>▪ A strategic plan and information technology master plan are being developed</li> </ul>
Decentralization	Decentralization Committee	<ul style="list-style-type: none"> <li>▪ Establish capability to support and monitor decentralization</li> <li>▪ Devolve appropriate expenditure functions</li> <li>▪ Enhance local revenues/resources</li> <li>▪ Revise intergovernmental grant (subsidy) system</li> <li>▪ Enhance local accountability</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Decentralization Act became effective in November 1999 (see Box) and the National Decentralization Committee is being established</li> </ul>
Cross-Government Accountability and Transparency	Office of the Prime Minister Office of the Civil Service Commission Official Information Commission	<ul style="list-style-type: none"> <li>▪ Increase institutional accountability</li> <li>▪ Enhance public access to information</li> <li>▪ Promote probity among civil servants</li> <li>▪ Enhance civil society participation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Anticorruption surveys of businesses, households and public officials are being conducted by Chulalongkorn University, UTCC, and TDRI and will be analyzed as inputs in developing an anti-corruption strategy for the Government</li> <li>▪ Sessions on fiscal transparency and government accountability were included in the Regional Journalists Workshop held in December 1999</li> </ul>

### BOX 3 : The National Decentralization Act and Committee

The National Decentralization Act became effective on 18 November 1999. This Act defines the roles and responsibilities of the National Decentralization Committee (NDC). The NDC will be composed of 28 members, including the Prime Minister (Chair) and Deputy Prime Minister, Minister of Interior; Permanent Secretary of the Ministry of Interior, and Director-General; 12 representatives of local government, and 12 senior experts.

A primary responsibility of the NDC is to produce a Decentralization Plan that will be submitted for Cabinet and Parliamentary approval. This plan will define the relationships and functional responsibilities between the central and local governments, as well as among local governments; define local revenue sources and identify means to improve local tax and revenue mobilization; outlines the stages and means to transfer functions from the central government to local governments; and recommends means to coordinate the transfer of public officials from the central government, local governments, and state enterprises relative to the new assignments of functions and resources. The Plan will also propose criteria for allocating resources among different levels of government; legislation, decrees, regulations, administrative guidelines and rules to implement the decentralization plan in a timely manner; and a system to achieve transparency and public participation in local government functions. The NDC will also be responsible for monitoring the progress achieved in implementing the Decentralization Plan.

The NDC is authorized to draw up Action Plan(s) to determine the procedures to decentralize administrative powers to local administrations, subject to Cabinet and Parliamentary approval. Once the Action Plan(s) have been signed into law, they will be legally binding in terms of agencies' operations.

- *Memoranda of Understanding have been signed between the Bureau of the Budget and seven ministries or agencies and methodologies for activity-based costing are being developed.* The Comptroller General's Office and the Fiscal Policy Office have begun analyzing the issue of fiscal transparency.

#### Human Resource Management

- *The Office of the Civil Service Commission (OCSC) oversees Thailand's human resource management reform program.* It is acting as the catalyst for change in encouraging the civil service to achieve the highest level of efficiency, quality and integrity. These reforms are expected to benefit society at large and to improve Thailand's international competitiveness. One of the key pillars of the reform program involves "rightsizing" the Thai civil service by adjusting staffing levels to new public sector requirements. The early retirement program is the first phase of this program, and is expected to reduce the number of civil servants by at least 10 percent.
- *Thus far, over 30,000 public employees (roughly three-quarters of those eligible to participate) have chosen early retirement as part of the*

*Government's rightsizing program.* The process will continue to be implemented over the next fiscal year. Early retirees are receiving a gratuity and a regular pension based on their last salary and their years of service.

#### Decentralization

- *The Decentralization Act became effective in November 1999 (see Box 3) and the National Decentralization Committee is being established.* Objectives envisioned in the Constitution and supported by Thailand's program include, increasing the share of local governments expenditures, assigning more revenue sources to local governments, revising the system of intergovernmental transfers to provide grants in a more transparent and predictable way, and promoting mechanisms for local accountability. Because most Thai local governments are weak in financial management, planning and service delivery, and generally lack adequate resources to deliver services effectively or to undertake needed capital projects, implementing the proposed program of decentralization reforms will require significant strengthening of local capabilities.

**Strengthening Cross-Government Accountability and Transparency**

- **The Government is committed to promoting accountability and transparency, and combating corruption.** In these efforts, it has many champions within various agencies as well as civil society at large. The new Constitution sets a framework for reforming the public sector and improving accountability, transparency, and mechanisms for combating corruption. For example, it provides more authority to the National Counter Corruption Commission, establishes new organizations to monitor and improve transparency, and grants legal rights for civil society to participate in the policy formulation process. The new Official Information Act provides greater access to public information.
- **Anti-corruption surveys of businesses, households and public officials are currently being conducted.** This is an effort to improve accountability and transparency as well as to combat corruption. The surveys are being conducted by Chulalongkorn University and the University of the Thai Chamber of Commerce. These surveys will be analyzed in order to develop an anti-corruption strategy for the Government.

**Labor Market**

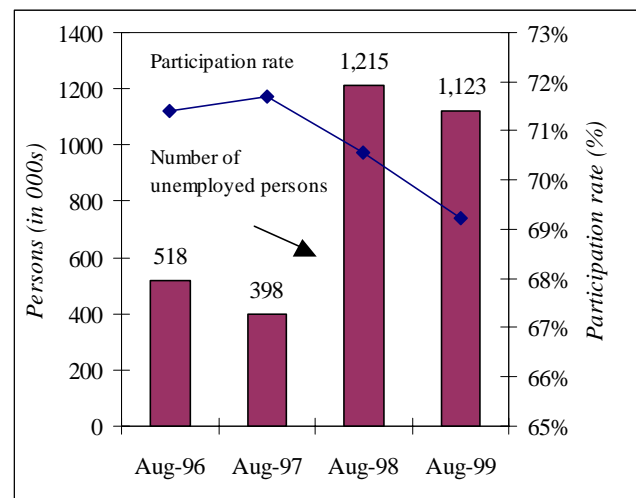
- **Unemployment declined in August 1999 from a year earlier.** Data from the latest Labor Force Survey show that the unemployment rate for the month of August dropped slightly from 3.6% in 1998 to 3.4% in 1999. Nonetheless, this change in the unemployment rate is not explained by an increase in the number of employed individuals (which fell by 0.16%), but rather by a reduction in the size of the labor force. Indeed, while the economically active population grew by 1.5%, from 47.2 million to 47.9 million, the participation rate in the labor force decreased from 70.6% to 69.2%. This implies that over 642 thousand people dropped out or decided not to join the labor force. One interpretation is that these people were discouraged by the continuous lack of success in finding a job.
- **The majority of those dropping out or not joining the labor force were women (58%).** More than 70% of these persons came from three age groups: 15-19 years, 20-24 years, and 60 years or over. Nearly two thirds of them did so because of household work, studies or physical incapacity (owing to age or disability).

**SOCIAL DEVELOPMENTS**

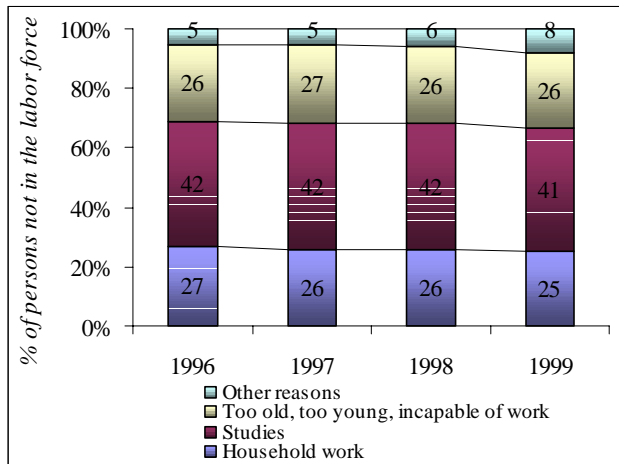
**Key Developments**

- Unemployment has declined slightly, but this is explained by an increase in the number of people who dropped out of the labor force.
- Average real wage rates continue to fall, nonetheless some sectors have experienced a recovery.
- Real per capital income and consumption remain well below the pre-crisis levels.
- Poor households have become more indebted as a result of the crisis.

**Figure 30: Unemployment decreased but non-participation in the labor force increased**

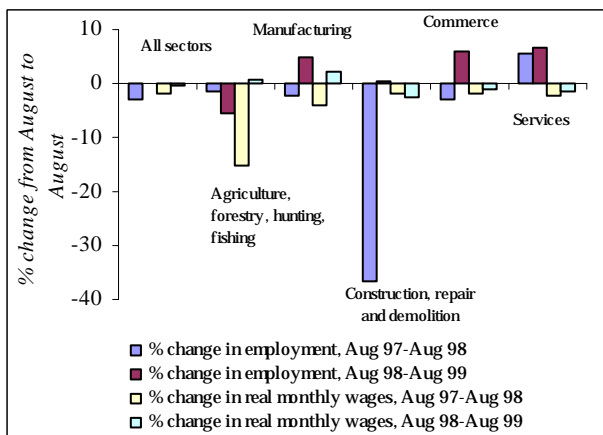


**Figure 31: Number of persons citing “other reasons” for not being in the labor force increased**



- Changes in employment and real wages have been uneven across sectors.** While the total number of employed persons in manufacturing, commerce and services increased by 5-7 percent from August 1998 to August 1999, employment in construction was virtually flat and agricultural employment actually fell by 5.5 percent. Real wages continued to fall between August 1998 and August 1999 in construction, commerce and services sectors, while they were flat in agriculture and increased by 2.1 percent in manufacturing. These data indicate that the process of wage adjustment that began with the onset of the crisis is continuing, at least in some sectors.

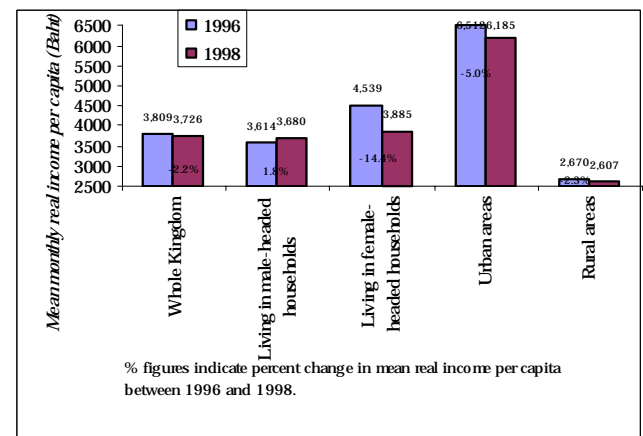
**Figure 32: Changes in employment and real wages are uneven across sectors**



**Household Income and Consumption**

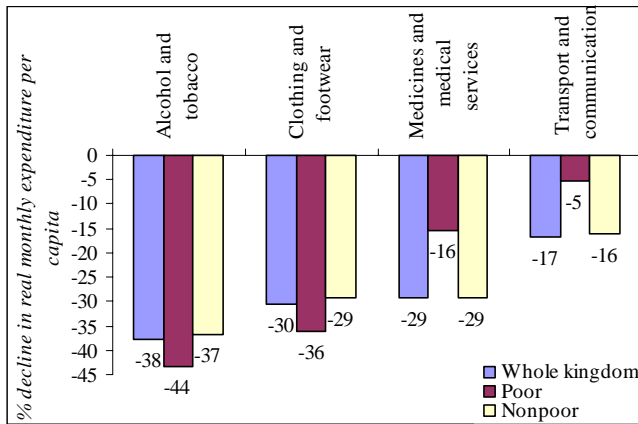
- Real per capita income has fallen unevenly across different groups.** Although real income per capita declined by 13 percent between 1996 and 1998 for the whole kingdom (from National Accounts), individuals residing in female-headed households saw their real incomes decline by 14.4 percent, while those in male-headed households experienced an increase of 1.8 percent. Likewise, between 1996 and 1998, urban per capita incomes fell more than rural incomes (5 percent versus 2.3 percent).

**Figure 33: Fall in real per capita income has been uneven**



- Discretionary consumption has fallen among both the poor and the non-poor.** To maintain levels of consumption on essential items, such as food, shelter, fuel and lighting, households have had to cut back on discretionary spending. The largest relative declines have been on alcohol and tobacco, followed by clothing and footwear, medicines and medical services, transport and communication, and personal care. The large decline in real per capita expenditure on medicines and medical services (29 percent) is of concern, as this may reflect reduced utilization of health services by individuals, which in turn could compromise their health status. However, other evidence suggests that the reduction in health expenditure was achieved largely by shifting from private (more expensive) to public (less expensive) providers of medical care – not by reducing utilization of health services.

**Figure 34: To maintain essential consumption, poor and non-poor reduced per capita expenditure on discretionary items**



- **To maintain consumption levels, households have taken on more debt.** Another manner in which households have maintained essential consumption during the crisis has been by taking on more debt. The percentage of population incurring debt increased from 53 percent in 1996 to 58 percent in 1998. In addition, the intensity of debt (i.e., the ratio of average outstanding debt to income) increased from 4.1 to 5.2. This means that, on average, outstanding debt is more than five times as large as income. In the case of the poor, average outstanding debts is more than 8.5 times average income.

**Table 7: Debt intensity of poor and non-poor**

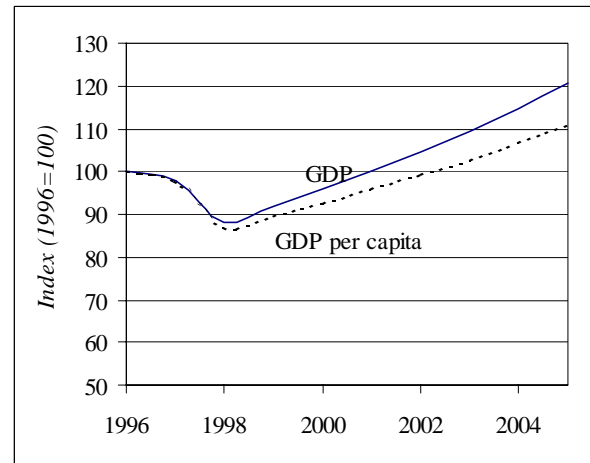
Group	% of population incurring debt		Intensity of debt	
	1996	1998	1996	1998
Non-poor	52.7	58.0	3.8	4.7
Poor	54.4	66.2	6.4	8.6
Whole Kingdom	52.9	59.1	4.1	5.2

**Looking Forward**

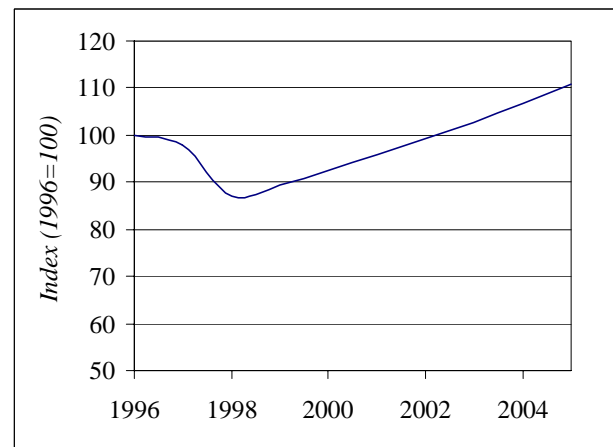
- **Thailand will have to wait two to three years before pre-crisis levels of consumption per capita are achieved.** After a contraction of 2 and 10 percent in years 1997 and 1998 respectively, the Thai economy grew by 4 to 5% in year 1999. Conservative estimates suggest that the economy

will continue to grow at an average rate of 4 to 5% per year. Given a population growth rate of roughly 1% per year, the economy is expected to regain its pre-crisis level of output per capita by year 2002, and the pre-crisis level of consumption per capita by year 2003.

**Figure 35: Per capita output will reach pre-crisis levels in year 2002**



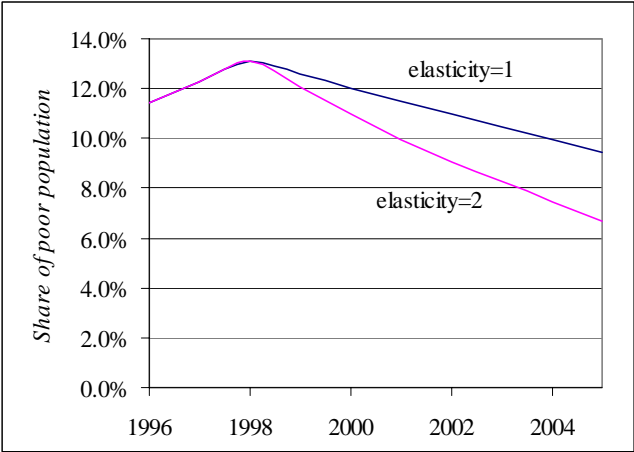
**Figure 36: Per capita consumption will reach pre-crisis levels in year 2003**



- **Sustained growth will reduce the number of poor.** Estimates from the literature suggest that the elasticity of poverty reduction with respect to mean income ranges between 1 and 2. Hence, current growth rates will bring the share of poor population below pre-crisis levels (11.4%) in year 2002, from 13.1% at the peak of the crisis in

1998. Given population growth, the absolute number of poor will remain close to pre-crisis levels, at around 7 million.

**Figure 37: Share of poor population will reach pre-crisis levels in year 2002**



## THAILAND'S MEDIUM TERM STRUCTURAL REFORM PROGRAM

The economic crisis in Thailand has imposed hardships, but it also presents an opportunity to strengthen the economy to meet future challenges. The structural reforms outlined in this note aim to address vulnerabilities before they threaten economic stability. The note is based on the executive summary of: "Thailand Social and Structural Review", World Bank (19732-TH dated January 25, 2000).<sup>\*</sup> It sets out the medium-term reform agenda of Thailand.

### Introduction

1. Thailand's medium-term growth prospects are good, but full implementation of unfinished structural reforms is essential. Reforms are needed to inculcate habits of prudent risk taking in a liberalized economic environment and to strengthen the international competitiveness of firms. The objective is to enable the private sector and the Government to respond flexibly to the challenges that lie ahead including protection of vulnerable groups in times of economic hardship.

### The Program of Structural Reform

#### A. Protecting the Vulnerable

2. *Thailand's flexible labor market and familial support mechanisms diminished the crisis's impact on unemployment and poverty compared with effects in the Republic of Korea and Indonesia, even though the macroeconomic downturn was equally severe.* Income losses in urban areas triggered migration to rural areas, and wages adjusted downward to accommodate the additional workers. The bulk of the adjustment took place through wage reduction rather than open unemployment. Rural wages did not collapse in part because devaluation helped spur agricultural exports and because families withdrew labor. Intrafamily lending also increased to smooth consumption.

3. *But the ability of family ties and wage adjustments to moderate the impact of the economic crisis would be severely tested in a prolonged crisis.* Crises will recur, and income losses may well be more severe. Family ties will weaken over time and will need to be supplemented by formal public programs. It is thus imperative that a poverty program be designed today to protect the poor against the risk of income loss in future.

4. Several steps are needed to strengthen public sector social programs and institutional capacity:

- Better coordination of social policy is needed to implement coherent poverty support programs that cut across line agencies.
- Improvements in targeting mechanisms and automaticity to deliver timely support to the poor and to expedite fiscal stimulus effects.
- Timely and reliable information for monitoring poverty and public programs to ensure cost-effectiveness.

5. *Programs aimed at the poorest segments of society must be complemented by a well-designed social security system that addresses the needs of an increasingly sophisticated labor force.* The agenda of the tripartite task force of labor, industry, and government, which includes establishment of an equitable, efficient, and fiscally sustainable social security system, needs to be implemented.

6. *Concerns about income distribution, a recurrent theme in Thailand, will resurface as the debate on who bears the costs of the crisis warms up.* This will require more careful evaluation of tax and expenditure policies to ensure that low-income groups do not bear a disproportionate burden.

#### B. Financial Sector Reform

7. *Market observers have praised Thailand for persisting with prudential and regulatory reform and relying on market-based recapitalization strategies.* To regain full market confidence, financial institutions need to be recapitalized quickly, aggressively address their nonperforming loans, and operate in a prudential and regulatory environment that meets international standards. The experience of the Asian crisis economies shows that this is a daunting challenge.

<sup>\*</sup> Prepared by Ijaz Nabi, Lead Economist, Thailand

Banks in Korea and Malaysia resumed lending quickly, made possible in part by regulatory forbearance and substantial government intervention. Thailand has taken a different approach. Still, banks have been slow to address nonperforming loans and to recapitalize. Improved prospects for recovery should not be allowed to weaken the resolve to address key vulnerabilities of the financial system. Vulnerabilities arise from both the ongoing resolution and restructuring of financial institutions discussed and an incentive framework that does not yet adequately support prudent risk taking by lenders and borrowers.

### **Resolution and Restructuring of Troubled Financial Institutions**

8. *Bank recapitalization and enhanced capacity to absorb losses must remain top priorities for sustainable corporate restructuring and recovery of growth.* The government needs to provide direction and follow up to the Asset Management Companies (in both public and private sectors) to ensure asset pricing at transfer to the AMC's and the speed of asset resolution are appropriate. Recapitalization needs of financial institutions should be watched.

9. *Limited progress in restructuring and recapitalizing state financial institutions has blunted their ability to prudently fulfill their mandates.* Recapitalization and restructuring of the state-owned Krung Thai Bank (KTB), a thorough review of the financial health of the specialized financial institutions, and the streamlining of supervision of specialized financial institutions must be top priorities.

### **Toward Incentives for Prudent Decision Making**

10. *Bank restructuring has resulted in a more highly concentrated banking system, which may impede innovation and diversification.* Continued permanent restrictions on foreign ownership of financial institutions, other restrictions on granting banking licenses, and high minimum capital requirements have limited entry and contributed to concentration. A more transparent licensing system and removal of restrictions on foreign bank branches, among other reforms, are needed to increase contestability and exposure to competition. Thorough reform of corporate governance is also needed.

11. *The financial system remains unbalanced, leaving the economy vulnerable to internal and external shocks and reducing contestability.* Financial assets

are 150 percent of GDP, and nearly 70 percent of the assets are in the banking sector. Markets for bonds (12.5 percent of GDP) and securities (19 percent of GDP) are underdeveloped, especially relative to other emerging markets. The tax and regulatory regimes (including those affecting the Bangkok International Banking Facility) need to be reviewed with an eye toward leveling the playing field. In addition, corporate governance reform is needed in the securities market in order to deepen capital markets.

12. *Financial sector laws need to be amended to clarify roles and responsibilities and to define the scope of operations of financial institutions.* Special attention needs to be given to the Central Bank Law, Financial Institutions Law, Deposit Insurance Law (including clear exit procedures), Stock Exchange Law, and regulations affecting the Securities and Exchange Commission. To provide adequate incentives for prudent and efficient financial intermediation, further changes are needed in regulations on credit risk management, connected lending, and internal control. Deposit protection must replace the comprehensive guarantee given to depositors to inculcate responsible banking habits. Reforms of the broader operating environment affecting credit-debtor relationships and corporate governance also need to be consolidated.

13. *Eliminating weaknesses in bank supervisory and regulatory capacity is critical for instilling prudent behavior.* A comprehensive reform of banking supervision has been initiated. It needs to be complimented by reforms clarifying the lines of responsibility between the Ministry of Finance and the Bank of Thailand, providing legal cover for supervisors to act, and curbing discretionary exemptions that weaken enforcement.

## **C: Strengthening the Private Sector**

### **Promoting Corporate Restructuring**

14. *Debt restructuring is being facilitated by strengthening the legal framework for court-supervised settlements, establishing a credible voluntary process, and removing regulatory and tax disincentives.* The key is to implement the three-pronged framework and to strengthen it further. Still needed on the legal front are separation of personal from corporate insolvency, adopting the best international practice regarding the test for insolvency and refining the criteria for appointing the planner. An Expert Advisory Committee should be set up to recommend, within a framework of a monitorable time-

bound plan, reform of insolvency laws. The voluntary regime for debt restructuring needs to be buttressed by a program of mediation; by expanded accounting, legal, and industry expertise; and by improved reporting on the restructuring process. The enabling environment can be further strengthened by extending tax incentives for restructuring to the private asset management companies, opening up a credit bureau that allows financial institutions to share information on potential borrowers, and encouraging specialized financial institutions to participate actively.

15. *Corporate governance reforms to promote responsible corporate management (attentive to shareholder interests, prudent in taking risks) are moving slowly and need to be accelerated.* The reforms are intended to curb excessive indebtedness and aid the operational restructuring of corporations. They include strengthening the institutional framework for setting standards and regulating accounting and auditing practices, improving the quality and reliability of corporate financial and nonfinancial information, strengthening the financial oversight role of the board of directors, and intensifying enforcement. been implemented.

#### **Removing Hurdles to Competition**

16. *The slow pace of tariff reform has resulted in high effective protection rates and distortions, particularly in the automobile, petroleum, and agriculture sectors.* The tariff structure is also riddled with specific duties and a complex system of exemptions that render it opaque. Commitments under the ASEAN Free Trade Area (AFTA) to liberalize the tariff regime will pose challenges to Thai producers serving the domestic market. Tariff reform to lower the duties on imports and simplification of the regime are now a priority.

17. *The complex investment incentives that lower the marginal effective corporate tax rate from 46 percent (one of the highest in the region) to 7 percent have been shown to be discretionary, inconsistent, nontransparent, and contrary to the principles of good governance.* The entire system of incentives is being reviewed. One thrust of reform would be replacing broad instruments such as tax holidays with narrower investment tax credits and depreciation allowances (already initiated in the August 10, 1999 package). The Board of Investment's role should shift from incentive intermediation to investment promotion.

18. *The new Competition Act passed in 1999 clearly defines abuse of dominance, price fixing, and*

*collusion and permits advance judgments and appeals in cases of mergers and acquisitions suits.* The Act will strengthen the domestic competitive environment. It should be followed up with detailed regulations to give substance to a modern competition policy. The institutional capacity to oversee and enforce the new law and associated regulations needs to be strengthened and a supportive legal infrastructure put in place.

#### **Improving Factors of Production**

19. *A shortage of skills has increased unit labor costs and hurt the international competitiveness of firms.* Lowering unit labor costs by increasing worker productivity would require upgrading the education system. That means giving universities greater autonomy to play a larger role in improving secondary and post-secondary education, decentralizing public education resources and increasing accountability, reforming teacher employment, and modernizing teaching practices and curricula. Vocational secondary education also needs to be tuned to the requirements of industry.

20. *Logistics costs in Thailand are well above those of competitors with better developed infrastructure. Measures have been implemented in recent years to reduce freight costs and shorten customs clearance time.* To lower costs further, an integrated government-industry group needs to be set up to oversee supply chain management and remove bottlenecks. The persistent problem of duty drawbacks and VAT rebates needs to be addressed.

21. *At only 0.5 percent of GDP, R&D expenditures are lower than for virtually all of Thailand's competitors. ISO 9000 certifications are also relatively low.* Private sector R&D currently constitutes a meager 10 percent of total R&D expenditure in Thailand. To increase the technological capabilities of private firms, closer links need to be established between the economy's technology infrastructure and enterprises.

#### **D. Environmental Protection**

22. *Selective investments are needed for reviving the environmental agenda.* Priority investments are needed to reduce airborne particulate of less than 10 microns in size (emissions from two-stroke motorcycle engines, diesel-powered buses and trucks, and road dust), build wastewater schemes for Thonburi and Klong Toey, and build up the capacity of the Bangkok Metropolitan Authority.

23. *These investments would be supplemented by a program of institutional and policy reform that strengthens environmental governance and establishes a sustainable financing mechanism.* More responsive public institutions are needed for dealing with the environment, improving enforcement, building the capacity of local governments, and encouraging greater community participation. Sustainable financing requires restructuring the Environment Fund (in particular, rationalizing the uncoordinated funding sources), instituting cost-recovery measures, and developing market-based instruments for pollution control to promote voluntary compliance.

24. *The Chao Phraya River system, Thailand's lifeline, needs to be revived by protecting the watershed and improving management of surface water and groundwater.* The government needs to focus on the legal and regulatory framework and the design of incentives to make Chao Phraya water management more effective. Institutional mechanisms are needed at different levels—ranging from water user associations to basin organizations—through which civil society can participate with government in decisionmaking.

#### **E. Debt Management and Reforming the Public Sector**

25. *Comprehensive debt management is crucial for ensuring medium-term fiscal sustainability and minimizing fiscal risks.* Especially important is the implementation of the staffing plan for the recently created Debt Management Office and developing diagnostic capabilities on sources of fiscal and financial risk. Developing an integrated debt database and information system, which includes private non-guaranteed debt and government contingent liabilities will also be important. Deepening of the domestic bond market is crucial as well.

26. *After initial progress on state enterprise reform (the master plan was announced in September 1998 and several detailed sector studies have been completed), the pace has slowed.* Among the factors responsible are employee opposition, the unclear mandate and inadequate funding of the Office of State Enterprise Reform, and slow progress in developing regulations for entities to be privatized and continued nervousness among investors regarding growth prospects. Clear benchmarks for gauging progress in 1999/2000 have been established, covering coordination among line agencies, attention to employee concerns, the regulatory and legal framework for entities to be privatized, and adequate sequencing of

reforms in water, telecommunications, energy, and transport sectors.

27. *Debt management and state enterprise reform are part of a more comprehensive agenda for public sector reform.* Constitutional changes have been put in place to promote broader participation in decisionmaking, greater decentralization, and increased accountability and transparency in government. Measures to achieve these goals include the introduction of performance-based budgeting by line ministries anchored in sectorwide policies developed by central ministries. A regulatory framework for autonomous public organizations will be announced and public access to information will be improved. Revenue management will benefit from improved tax compliance, enforcement of collections, and introduction of information technology. Decentralization will be achieved by devolving expenditure and revenue functions to appropriate subnational levels of government and revising the intergovernmental grants system. A civil service renewal program will be launched, headed by a motivated and politically neutral cadre of senior civil servants. Better matching of staffing profiles with service responsibilities will be undertaken to improve service delivery. Specific, time-bound targets have been announced under each of these programs.

## ANNEX 1: GROWTH INDICATORS

Table 1: Gross Domestic Product (Real)

(year-on-year changes)

Production Side	1996	1997	1998				1999		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture	3.8	-0.5	-1.2	-3.7	-0.7	2.2	-0.7	3.2	-0.2
Manufacturing	6.7	0.1	-13.3	-13.8	-14.8	-4.1	6.6	9.5	17.4
Construction	7.2	-26.6	-28.1	-35.8	-41.6	-40.6	-24.8	-18.4	-0.6
Wholesale and Retail Trade	1.8	-2.1	-8.8	-11.7	-10.9	-6.6	3.1	6.1	7.2
Transportation	11.9	3.8	2.5	-8.2	-6.9	3.1	1.8	9.2	0.7
Hotels and Restaurants	3.6	-2.4	-10.2	-12.5	-3.7	2.8	8.2	4.9	9.5
Financial Intermediation	5.2	-10.3	-24.2	-34.9	-38.4	-45.5	-20.6	-29.7	-9.2
Expenditure Side	1996	1997	1998				1999		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
Private Consumption	6.8	-0.8	-10.6	-14.5	-12.8	-3.9	-0.3	1.1	5.5
Government Consumption	11.9	-3.6	-6.4	-6.0	11.9	15.5	1.4	15.5	3.4
Gross Fixed Investment	7.4	-20.3	-23.8	-33.4	-31.2	-19.2	-13.9	1.1	6.1
Private	..	29.6	-30.7	-33.8	-29.8	-14.7	-7.8	0.9	7.7
Public	..	8.8	-6.1	-32.4	-33.2	-28.5	-25.4	1.5	3.6
Exports of Goods and Services	-5.5	8.4	15.0	8.9	5.7	-1.2	-1.8	7.6	13.3
Imports of Goods and Services	-0.5	-11.4	-28.5	-29.8	-23.5	-11.8	8.5	23.2	21.6
<b>GDP</b>	<b>5.9</b>	<b>-1.8</b>	<b>-9.0</b>	<b>-12.7</b>	<b>-13.2</b>	<b>-6.6</b>	<b>0.9</b>	<b>3.3</b>	<b>7.7</b>

Source: NESDB

Note: Real gross domestic product (GDP) are GDP at 1988 prices.

**Table 2: Balance of Payments***(billion US\$)*

	1997	1998			1999					
		1998	Q1 <sup>P</sup>	Q2 <sup>P</sup>	Q3 <sup>P</sup>	Q4 <sup>P</sup>	Q1 <sup>P</sup>	Q2 <sup>P</sup>	Q3 <sup>P</sup>	Oct <sup>P</sup>
<b>Exports (f.o.b.)</b>	<b>56,627</b>	<b>52,798</b>	<b>13,234</b>	<b>12,928</b>	<b>13,240</b>	<b>13,396</b>	<b>12,667</b>	<b>13,666</b>	<b>14,686</b>	<b>5,330</b>
<b>Imports (c.i.f.)</b>	<b>61,249</b>	<b>40,583</b>	<b>10,110</b>	<b>10,334</b>	<b>10,099</b>	10,041	10,001	11,549	12,316	4,476
<b>Trade balance</b>	<b>-4,622</b>	<b>12,214</b>	<b>3,124</b>	<b>2,594</b>	<b>3,142</b>	<b>3,355</b>	<b>2,666</b>	<b>2,116</b>	<b>2,369</b>	<b>854</b>
Net services & transfers	1,512	2,057	1,081	211	263	502	766	434	424	170
Current account balance	-3,110	14,271	4,205	2,805	3,404	3,857	3,432	2,550	2,793	1,023
<b>Capital and financial account</b>	<b>-9,050</b>	<b>-9,635</b>	<b>-2,437</b>	<b>-3,326</b>	<b>-1,952</b>	<b>-1,919</b>	<b>-3,195</b>	<b>329</b>	<b>-2,920</b>	<b>-947</b>
Private	-8,081	-15,593	-4,021	-2,067	-3,120	-6,385	-5,965	-2,966	-2,641	-1,137
Public	1,584	1,975	569	204	649	553	1,579	663	-480	191
Monetary authorities 1/	-2,553	3,983	1,015	-1,462	519	3,912	1,191	2,631	202	0
<b>Net errors &amp; omissions</b>	<b>1,531</b>	<b>-2,904</b>	<b>-998</b>	<b>-346</b>	<b>-987</b>	<b>-573</b>	<b>571</b>	<b>-1,263</b>	<b>33</b>	<b>-53</b>
<b>Balance of payments</b>	<b>-10,629</b>	<b>1,733</b>	<b>770</b>	<b>-868</b>	<b>466</b>	<b>1,364</b>	<b>808</b>	<b>1,615</b>	<b>-94</b>	<b>24</b>

Source: Bank of Thailand

Remarks: Figures are converted into US dollars using monthly average exchange rates.

1/ Including Bank of Thailand's borrowing and other off-shore transactions.

P/ Priliminary

**Table 3: Manufacturing Production***(% changes since previous year)*

	Weight	1997	1998	1999			Oct	Nov	Dec
				Q1	Q2	Q3			
Manufacturing Production Index	<b>100.0</b>	<b>-0.5</b>	<b>-10.0</b>	<b>4.8</b>	10.6	17.5	14.3	20.7	15.3
<i>Foods</i>	<b>9.6</b>	1.8	-5.3	20.6	22.0	16.6	16.8	4.3	-2.4
<i>Beverages</i>	<b>10.6</b>	14.3	2.3	13.2	28.0	31.0	9.2	17.2	13.3
<i>Tobacco</i>	<b>3.0</b>	-9.9	-20.3	-17.8	-2.9	-6.1	-12.5	-8.1	-11.4
<i>Textiles &amp; Textile Products</i>	<b>22.8</b>	1.8	2.9	-0.7	-2.7	-0.9	-0.2	0.1	-0.5
<i>Petroleum Products</i>	<b>11.5</b>	15.9	-6.4	8.8	-1.4	-0.1	-1.4	22.0	-0.7
<i>Construction Materials</i>	<b>4.1</b>	-3.2	-38.3	-0.1	15.2	31.2	10.1	-4.4	9.8
<i>Iron &amp; Steel Products</i>	<b>3.3</b>	-2.4	-31.5	-5.6	19.0	28.7	4.5	12.7	42.9
<i>Transportation Equipments</i>	<b>16.4</b>	-26.5	-54.1	61.0	62.1	100.9	87.8	95.2	74.2
<i>Others</i>	<b>18.7</b>	0.2	0.9	-14.9	7.9	20.6	27.9	35.2	44.0

Note: The manufacturing production index accounts for 62 percent of the 1995 manufacturing sector value added.

Source: Bank of Thailand

**Table 4: Key Private Investment Indicators**

	1999									
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Private investment index	-73.3	-49.6	-16.7	41.3	148.9	259.1	486.2	725.7	1035.6	1210.5
(% changes of 12-month MA)	21.0	18.6	-16.2	-14.5	-10.9	-9.0	-7.0	-5.0	0.0	0.0
Import value of capital goods (baht)	-15.0	-2.3	-9.3	9.8	-7.6	12.7	18.9	28.9	39.7	na
Import value of capital goods (US\$)	-5.4	2.9	-4.7	25.5	3.1	23.2	21.2	24.5	31.4	na
Domestic cement consumption	-12.7	-12.7	-15.2	3.0	5.6	-7.3	1.3	-14.3	-0.6	14.6
Commercial banks' credit for industry	-4.4	-2.9	-3.7	-3.2	-1.6	-1.8	-2.2	-2.5	-0.3	na
Commercial banks' credit for construction	3.6	7.1	5.6	0.5	3.0	5.7	na	0.6	0.6	na

Source: Bank of Thailand

**Table 5: Capacity Utilization**  
(percent)

	Weight	1996	1997	1998	1998	1998	1999	Q2	Q3	Q4
					Q3	Q4	Q1			
Total capacity utilization	44.5	<b>72.4</b>	<b>65.5</b>	<b>52.1</b>	<b>50.9</b>	<b>53.6</b>	<b>56.0</b>	<b>58.4</b>	<b>61.8</b>	<b>63.8</b>
Foods	3.5	37.2	37.5	33.7	22.7	33.5	67.3	33.8	30.9	38.7
Beverages	5.5	83.0	79.1	77.2	77.8	94.4	79.3	103.8	108.1	116.6
Tobacco	1.9	84.2	75.8	60.4	53.1	57.4	59.8	56.8	49.9	51.2
Construction materials	2.4	76.7	72.9	44.6	42.8	39.5	50.6	51.3	55.8	41.4
Iron and steel	2.1	64.7	51.9	33.1	30.8	30.9	30.4	33.1	37.2	37.0
Transportation equipment	10.2	67.7	48.6	23.4	23.3	25.9	28.5	31.9	39.9	41.1
Petroleum products	7.2	85.7	90.1	84.0	85.6	79.8	86.8	89.4	85.5	85.0
Others	11.7	72.4	66.4	54.7	54.1	54.6	51.9	54.7	61.4	64.4

Note: Capacity utilization of 44.5 percent of the 1995 manufacturing sector value added.

Source: Bank of Thailand

**Table 6: Changes in Consumer Prices**  
(year-on-year % changes)

	1999											
	Jan	Feb	Mar	April	May	Jun	July	Aug	Sept	Oct	Nov	Dec
<b>All commodities</b>	<b>3.5</b>	<b>2.9</b>	<b>1.6</b>	<b>0.4</b>	<b>-0.5</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-0.8</b>	<b>-0.5</b>	<b>0.0</b>	<b>0.7</b>
<b>Food and beverages</b>	<b>4.7</b>	<b>3.4</b>	<b>0.9</b>	<b>-0.3</b>	<b>-1.4</b>	<b>-2.0</b>	<b>-2.3</b>	<b>-3.1</b>	<b>-3.1</b>	<b>-2.7</b>	<b>-1.7</b>	<b>-1.8</b>
Rice and cereal products	-4.7	-12.8	-15.5	-16.5	-18.1	-18.5	-19.0	-18.4	-16.6	-14.1	-11.4	-7.4
Meat, poultry and fish	7.0	6.7	5.0	5.2	5.4	4.9	4.2	3.2	1.3	-1.0	-0.2	-0.3
Vegetables and fruits	9.1	9.2	-4.9	-9.3	-14.7	-15.8	-17.1	-17.6	-16.8	-11.8	-6.1	-9.4
Eggs and milk products	11.4	9.8	8.1	3.6	0.6	-2.7	-3.1	-3.9	-4.7	-5.0	-5.2	-4.2
Other food bought from the market	9.5	7.0	6.7	5.1	4.4	2.9	2.4	1.0	-0.1	-1.9	-2.8	-6.1
Non-alcoholic beverages	9.7	9.1	8.6	7.0	7.1	3.2	1.9	-1.5	-1.9	-2.3	-2.3	-2.4
Prepared food	3.1	2.9	2.3	2.1	2.1	2.1	2.1	1.6	1.5	1.5	1.4	1.4
Clothing	3.9	3.8	2.8	1.4	1.0	0.2	-0.2	0.6	0.3	0.2	0.2	0.3
Men's and boys'	3.6	3.4	1.8	-0.2	-0.6	-0.8	-1.0	0.4	0.2	-0.2	-0.2	-0.1
Women's and girls'	4.2	4.1	3.4	2.2	1.7	0.5	-0.3	-0.1	-0.2	-0.1	-0.2	-0.1
Cloth and sewing services	3.8	4.1	4.7	4.9	4.3	3.7	3.3	3.1	3.1	3.3	3.5	3.4
Housing and furnishing	2.8	2.5	2.4	0.8	-0.7	-1.0	-1.3	-1.3	-1.3	-1.3	-1.3	0.5
Shelter	0.7	0.4	0.5	0.6	0.6	0.4	0.3	0.4	0.4	0.3	0.4	0.3
Furniture and equipment	3.5	3.1	1.2	0.0	-0.1	-0.7	-1.0	-1.1	-1.2	-1.4	-1.6	-1.0
Housekeeping and cleaning supplies	0.0	-0.9	-1.6	-4.4	-5.0	-4.5	-8.0	-7.6	-7.5	-6.8	-5.9	-5.0
Household textiles	2.5	1.7	1.6	2.1	1.6	1.5	1.3	1.2	1.3	1.2	1.1	1.1
Electricity, fuel and water	11.1	11.1	10.1	2.7	-3.8	-5.0	-4.6	-5.1	-4.9	-4.9	-4.8	2.7
Personal and medical care	6.4	6.1	5.3	3.9	3.3	2.4	2.3	1.9	1.2	1.1	1.5	2.2
Medical care	2.0	2.1	2.5	2.5	2.4	2.4	3.4	3.2	2.5	2.5	2.3	2.3
Personal care	11.6	10.6	8.6	5.5	4.5	2.2	0.9	0.5	-0.2	-0.5	0.5	2.0
Transportation and communication	-0.4	-1.0	-0.9	-1.1	-1.4	-1.7	-0.3	1.5	3.7	4.0	4.9	6.9
Vehicles	-5.3	-6.1	-4.2	-2.3	-2.7	-2.8	-0.5	1.9	5.6	6.1	7.5	10.6
Public transportation	11.2	11.4	5.1	2.6	2.5	1.4	1.5	1.5	1.2	0.7	0.7	0.4
Communication and equipment	8.8	8.8	8.9	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Recreation and education	3.1	2.8	2.0	1.5	-0.2	-0.5	-0.5	-0.5	-0.3	-0.4	-0.3	-0.5
Recreation	4.8	4.3	2.8	1.4	1.5	0.9	0.8	0.9	1.3	1.2	1.3	1.1
Reading and education	1.2	1.2	1.1	1.0	-2.0	-2.0	-2.0	-1.9	-2.0	-2.0	-2.0	-2.1
Tobacco and alcoholic beverages	10.0	9.7	6.7	3.7	2.4	0.0	1.0	1.4	1.2	2.6	2.2	2.0
<b>Non-food and beverages</b>	<b>2.9</b>	<b>2.5</b>	<b>2.1</b>	<b>0.8</b>	<b>-0.1</b>	<b>-0.7</b>	<b>-0.3</b>	<b>0.2</b>	<b>0.7</b>	<b>0.8</b>	<b>1.1</b>	<b>2.2</b>

Source: Bank of Thailand

**Table 7: Net Capital Flows to the Private Sector 1/**  
(million US\$)

	1996	1997	1998	1998			1999		
				H1	Q3 <sup>P</sup>	Q4 <sup>P</sup>	Q1 <sup>e</sup>	Q2 <sup>e</sup>	Q3 <sup>e</sup>
<b>Bank</b>	<b>5,002</b>	<b>-6,267</b>	<b>-13,574</b>	<b>-5,042</b>	<b>-4,368</b>	<b>-4,163</b>	<b>-5,563</b>	<b>-2,129</b>	<b>-2,627</b>
Commercial bank	428	-4,703	-3,928	-799	-2,445	-684	-3,441	428	439
of which Recapitalization	n.a.	n.a.	2,125	2,125	0	0	21	1,212	410
BIBFs	4,574	-1,563	-9,646	-4,243	-1,924	-3,479	-2,122	-2,557	-3,066
<b>Non-bank</b>	<b>13,170</b>	<b>-1,814</b>	<b>-2,019</b>	<b>-1,046</b>	<b>1,248</b>	<b>-2,222</b>	<b>-469</b>	<b>-837</b>	<b>-14</b>
Direct investment	1,453	3,174	4,728	2,545	1,218	965	902	786	820
Foreign direct investment 2/	2,268	3,621	4,850	2,557	1,248	1,045	996	984	834
Thai direct investment abroad	-815	-446	-122	-12	-30	-80	-94	-198	-15
Others loans	5,446	-3,778	-4,202	-2,795	-734	-673	-1,320	-1,087	-1,488
Portfolio investment	3,482	4,560	524	477	-15	62	221	289	142
Equity securities	1,122	3,979	330	284	-75	121	230	287	181
Debt securities	2,360	581	194	193	60	-59	-9	2	-39
Non-resident baht account	2,911	-5,800	-2,789	-1,092	779	-2,475	-315	-1,078	399
Trade credits	-146	-216	-503	-287	-160	-57	81	233	83
Others	25	245	223	106	160	-43	-38	20	30
<b>Total</b>	<b>18,172</b>	<b>-8,081</b>	<b>-15,593</b>	<b>-6,088</b>	<b>-3,120</b>	<b>-6,385</b>	<b>-6,032</b>	<b>-2,966</b>	<b>-2,641</b>

Source: Bank of Thailand and own calculations

1/ Data is from BOT's Monthly Bulletin (January), converted into US dollars.

2/ Excluding \$2.1 billion in bank recapitalization. BOT will eventually update their tables so that the FDI figures for 1998 is consistently in the \$7 billion range.

Table 8: Trade Indexes and Terms of Trade 1/

1995=100	1997		(in terms of US\$)											
	1997	1997	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exports:</b>														
Export unit value	105.3	109.7	109.6	108.9	108.0	107.2	106.5	105.7	104.7	103.7	101.9	99.7	97.6	
Export value	101.8	98.0	90.7	105.1	91.8	102.7	99.9	102.1	103.1	107.4	110.7	103.0	106.9	
Export volume	96.7	89.3	82.8	96.5	85.0	95.8	93.8	96.6	98.5	103.5	108.7	103.3	109.6	
<b>Imports:</b>														
Import unit value	107.4	112.7	112.5	111.9	110.2	108.2	108.1	106.3	105.4	103.8	103.8	103.6	101.9	
Import value	86.8	103.1	85.7	98.0	99.1	91.8	94.8	89.9	91.0	81.3	77.1	67.2	67.1	
Import volume 2/	80.8	91.5	76.2	87.6	90.0	84.8	87.7	84.6	86.4	78.3	74.3	64.8	65.9	
<b>Terms of trade</b>	<b>98.0</b>	<b>97.3</b>	<b>97.4</b>	<b>97.3</b>	<b>98.0</b>	<b>99.0</b>	<b>98.6</b>	<b>99.4</b>	<b>99.4</b>	<b>99.8</b>	<b>98.2</b>	<b>96.2</b>	<b>95.8</b>	
	<b>1998</b>	<b>1998</b>												
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exports:</b>														
Export unit value	90.7	94.2	93.0	92.1	91.2	90.8	89.6	89.9	90.7	90.7	89.1	88.7	89.0	
Export value	94.9	90.2	93.7	101.4	91.6	90.5	96.7	98.2	91.0	96.3	96.7	94.3	97.8	
Export volume	104.6	95.8	100.8	110.1	100.5	99.7	107.9	109.2	100.4	106.1	108.6	106.4	109.9	
<b>Imports:</b>														
Import unit value	98.0	100.6	101.1	102.0	102.4	101.2	98.6	97.4	94.7	93.5	94.1	94.8	94.9	
Import value	57.7	56.6	54.7	61.2	60.4	55.3	60.8	61.2	56.2	55.0	58.0	57.0	56.5	
Import volume 2/	59.0	56.3	54.2	60.0	59.0	54.7	61.6	62.8	59.3	58.9	61.6	60.1	59.5	
<b>Terms of trade</b>	<b>92.7</b>	<b>93.6</b>	<b>92.0</b>	<b>90.2</b>	<b>89.0</b>	<b>89.7</b>	<b>90.9</b>	<b>92.3</b>	<b>95.7</b>	<b>97.0</b>	<b>94.7</b>	<b>93.5</b>	<b>93.8</b>	
		<b>1999</b>												
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exports:</b>														
Export unit value		90.5	90.9	91.4	90.5	88.3	88.8	86.9	85.0	84.7	83.0			
Export value		85.7	87.8	99.8	94.2	98.2	102.3	105.3	104.7	106.6	114.8			
Export volume		94.7	96.7	109.2	104.1	111.2	115.3	121.1	123.3	125.8	138.3			
<b>Imports:</b>														
Import unit value		93.9	92.1	90.4	89.4	91.4	92.6	92.5	93.2	94.3	95.6			
Import value		54.4	53.6	62.9	62.8	61.3	73.1	66.8	70.2	73.2	73.7			
Import volume 2/		57.9	58.2	69.6	70.3	67.1	78.9	72.3	75.4	77.7	77.1			
<b>Terms of trade</b>		<b>96.4</b>	<b>98.6</b>	<b>101.1</b>	<b>101.3</b>	<b>96.7</b>	<b>95.9</b>	<b>94.0</b>	<b>91.2</b>	<b>89.9</b>	<b>86.9</b>			

Source: Bank of Thailand

1/ From January 1996 onwards, base year was 1995 (1995=100) and the indexes are calculated using the Fisher chained method.

2/ Volume indexes are calculated based on the "factor reversal test".

**Table 9: Exports**  
*(year-on-year percentage changes in terms of US dollars)*

	% of Total Exports (Jan- Jun 1999)	1996	1997	1998	1998 Q2	Q3	Q4	1999 Q1	Q2	Q3
<b>Agricultural products</b>	<b>8.5</b>	<b>2.5</b>	<b>-9.5</b>	<b>-15.6</b>	<b>-20.9</b>	<b>-22.4</b>	<b>-15.3</b>	<b>-19.6</b>	<b>-4.5</b>	<b>1.6</b>
<b>Fishery products</b>	<b>3.3</b>	<b>-12.3</b>	<b>-7.6</b>	<b>-7.0</b>	<b>-13.4</b>	<b>-20.9</b>	<b>1.2</b>	<b>-18.3</b>	<b>-10.0</b>	<b>18.6</b>
Others	3.6	26.2	61.3	22.1	41.6	21.4	-10.0	-12.8	-24.9	3.1
<b>Manufactured goods</b>	<b>84.6</b>	<b>-1.7</b>	<b>5.6</b>	<b>-7.2</b>	<b>-5.6</b>	<b>-8.0</b>	<b>-9.8</b>	<b>-1.9</b>	<b>9.5</b>	<b>10.5</b>
Labor intensive goods	13.0	-17.1	-7.4	-12.5	-12.4	-11.4	-12.5	-3.6	1.9	2.8
High tech products	57.1	4.1	10.7	-2.8	-0.3	-3.3	-6.2	1.4	10.8	11.2
Resource based manufactured products	9.6	3.3	-0.1	-12.6	-13.5	-12.9	-10.1	-4.2	19.5	18.2
Other manufactured goods	5.0	-4.6	7.6	-23.2	-21.4	-29.8	-33.1	-24.1	-1.3	12.0
<b>TOTAL EXPORTS</b>	<b>100.0</b>	<b>-1.3</b>	<b>4.4</b>	<b>-7.1</b>	<b>-6.1</b>	<b>-9.1</b>	<b>-9.9</b>	<b>-4.9</b>	<b>5.9</b>	<b>9.7</b>

P/ Preliminary

e/ Estimate

Source: Bank of Thailand

Table 10: External Debt 1/  
(million US\$)

	1996	1997	1998				1999	
			Q1	Q2	Q3	Q4	H1 <sup>P</sup>	Q3 <sup>P</sup>
<b>Total Debt Stocks (End of Period)</b>								
<b>Public Sector</b>	<b>16,805</b>	<b>24,323</b>	<b>26,814</b>	<b>26,963</b>	<b>28,556</b>	<b>31,509</b>	<b>33,890</b>	<b>35,726</b>
<b>Govt and SOEs</b>	<b>16,805</b>	<b>17,166</b>	<b>17,695</b>	<b>17,524</b>	<b>18,268</b>	20,305	<b>21,987</b>	<b>23,024</b>
Long-term	16,751	17,146	17,675	17,504	18,118	20,155	21,857	22,894
Short-term <sup>1</sup>	54	20	20	20	150	150	130	130
<b>BOT (long term)</b>	<b>0</b>	<b>7,157</b>	<b>9,119</b>	<b>9,439</b>	<b>10,288</b>	<b>11,204</b>	<b>11,903</b>	<b>12,702</b>
Use of IMF credit	0	2,429	2,672	2,796	3,017	3,239	3,344	3,470
Others	0	4,728	6,447	6,643	7,271	7,965	8,559	9,232
<b>Private Sector</b>	<b>73,731</b>	<b>69,093</b>	<b>64,922</b>	<b>61,163</b>	<b>58,136</b>	<b>54,650</b>	<b>46,765</b>	<b>43,008</b>
Long-term	36,172	34,277	33,575	32,827	32,192	31,278	29,328	27,450
Short-term	37,559	34,816	31,347	28,336	25,944	23,372	17,437	15,558
Commercial Bank	10,682	9,488	9,147	8,747	7,823	7,059	6,135	5,997
Long-term	2,314	3,824	3,167	3,971	3,638	3,738	3,447	3,179
Short-term	8,368	5,664	5,980	4,776	4,185	3,321	2,688	2,818
BIBF <sup>2</sup>	31,187	30,079	27,819	25,679	23,679	21,892	16,577	14,260
Long-term	10,697	10,317	9,820	8,236	7,843	6,946	5,676	5,045
Short-term	20,490	19,762	17,999	17,443	15,836	14,946	10,901	9,215
Non-Bank <sup>3</sup>	31,862	29,526	27,956	26,737	26,634	25,700	24,053	22,751
Long-term	23,161	20,136	20,588	20,620	20,711	20,594	20,205	19,226
Short-term	8,701	9,390	7,368	6,117	5,923	5,106	3,848	3,525
<b>Total</b>	<b>90,536</b>	<b>93,416</b>	<b>91,736</b>	<b>88,126</b>	<b>86,692</b>	<b>86,159</b>	<b>80,655</b>	<b>78,734</b>
Long-term	52,923	58,580	60,369	59,770	60,598	62,637	63,088	63,046
Short-term <sup>1</sup>	37,613	34,836	31,367	28,356	26,094	23,522	17,567	15,688
<b>Bank foreign assets</b>	<b>7,362</b>	<b>8,887</b>	<b>8,744</b>	<b>11,201</b>	<b>12,564</b>	<b>12,836</b>	<b>15,799</b>	<b>14,133</b>
<b>Gross official reserves</b>	<b>38,725</b>	<b>26,968</b>	<b>27,680</b>	<b>26,572</b>	<b>27,291</b>	<b>29,536</b>	<b>31,434</b>	<b>32,362</b>
<b>Debt Service Payments</b>	<b>9,024</b>	<b>11,630</b>	<b>3,218</b>	<b>3,017</b>	<b>4,027</b>	<b>3,391</b>	3,357	4646
Principal	3,822	6,072	1,894	1,673	2,664	2,090	2,351	3555
Interest	5,202	5,558	1,324	1,344	1,363	1,300	1,006	1091
<b>Public sector</b>	<b>1,845</b>	<b>1,959</b>	<b>514</b>	<b>496</b>	<b>656</b>	<b>517</b>	<b>624</b>	<b>994</b>
<b>Private sector</b>	<b>7,179</b>	<b>9,671</b>	<b>2,704</b>	<b>2,521</b>	<b>3,371</b>	<b>2,873</b>	<b>2,733</b>	<b>3652</b>
<b>Export of goods and services</b>	<b>73,497</b>	<b>74,431</b>	<b>16,833</b>	<b>16,291</b>	<b>16,624</b>	<b>17,533</b>	<b>17,659</b>	<b>18386</b>
<b>Debt Service Ratio</b>	<b>12</b>	<b>16</b>	<b>19</b>	<b>19</b>	<b>24</b>	<b>19</b>	<b>19</b>	<b>25.3</b>

Source: Bank of Thailand

1/ Short-term external debt is defined as debt that has an original maturity of one year or less.

2/ BIBF's debt, which was compiled according to remaining maturity since the establishment of BIBF's activities in 1993 has been adjusted to original maturity basis since January, 1996, consistent with other external debt items.

3/ Non-bank debt is adjusted back to January 1997 based on the result of March 1998 survey and December 1997 bond data from IMF.

Notes: 1. The revised definition of private sector debt has been made since 1986. It consists of three parts, namely commercial bank, BIBF and non-bank debt. 2. Total monetary authority debt includes the use of IMF credits and bilateral loans under IMF package. Structural Adjustment Loans (SAL) of World Bank and Asian Development Bank under the same package, however, are included in public sector debt. 3. Debt service payments in private sector has also been revised to include principal and interest payments on BOT debt since 1986.

**Table 11: Central Government Balance***(million baht)*

	CY1996	CY1997	CY1998	1999					
				Q1	Q2	Q3	Sep	Oct	Nov
Revenue(+)	853,201	847,696	717,779	179,600	189,473	178,567	62,819	46,522	59,943
Expenditures(-)	819,083	874,403	842,581	183,502	212,186	215,442	89,743	59,726	91,459
Budgetary deficit(-) or surplus(+)	34,118	-27,914	-124,802	-3,902	-22,713	-36,875	-26,924	-13,204	-31,516
Non-budgetary deficit / surplus(+)	9,185	12,855	-4,150	3,791	-23,020	-10,867	-6,653	2,016	-1,901
Cash deficit(-) or surplus(+)	43,303	-15,059	-128,952	-111	-45,733	-47,742	-33,577	-11,188	-33,417
Financing:									
Net domestic borrowings(+):	-25,123	-16,380	-3,081	6,013	10,062	22,778	17,948	-1,867	23,052
- Bank of Thailand 1/	2,054	-5,800	2,482	7,253	-7,176	3,571	2,958	-1,853	5,893
- Commercial banks	-21,320	-710	-1,651	-965	1,065	14,016	13,063	-1,189	6,083
- Government Savings Bank	-3,570	-8,200	-3,000	0	0	1,758	1,758	-119	-792
- Others	-2,287	-1,670	-912	-275	16,173	3,433	169	1,294	11,868
Net foreign borrowings (+)	-3,665	-3,747	-4,403	-1,550	47,343	-7,370	-897	-320	-302
Government Pension Fund	-	-55,991	-280	0	0	0	0	0	0
Gov't Bond for FIDF	0	0	400,000	102,383	101,408	1,111	925	2,679	6,762
Lending to FIDF	0	0	-400,000	-102,383	-101,408	-1,111	-925	-2,679	-6,762
Use of Treasury cash balances(+)	-14,515	91,177	136,715	-4,352	-11,673	32,334	16,526	13,375	10,667

Source : Comptroller-General's Department and the Bank of Thailand

1/ Including Exchange Equalization Fund.

The budgetary deficit/surplus is the balance between revenue and expenditure from the current year budget and carryover expenditure from the previous two budgets. The overall balance is a cash balance, which is composed of the budgetary balance and the non-budgetary balance. The non-budgetary balance, reported above the line, represents mainly changes in deposits of government agencies at the Ministry of Finance which are of revenue-related and expenditure-related types.

**Table 12: Budget Appropriation for FY 2000 by Economic Services**  
(million baht)

	Amount	ratio to budget	+/-	%
<b>Total</b>	<b>860,000</b>	<b>100.0</b>	<b>35,000</b>	<b>4.2</b>
1. Agriculture	66,656.9	7.7	5,224.6	8.5
2. Industry and mining	3,670.8	0.4	429.3	13.2
3. Transportation and Communication	59,907.5	7.0	-4,982.9	-7.7
4. Commerce and Tourism	5,615.7	0.7	-1,,79.3	-17.4
5. Sciences and Technology	15,240.5	1.8	2,609.0	20.7
6. Education	222,401.3	25.9	13,785.2	6.6
7. Public Health	65,760.2	7.6	3,292.8	5.3
8. Social and Public Welfare	93,646.2	10.9	-5,011.6	-5.1
9. Defense	88,608.6	10.3	1,690.2	1.9
10. Internal security	43,648.9	5.1	-905.7	-2.0
11. Public administration	115,777.1	13.5	16,183.7	16.3
12. Loan payment	79,066.3	9.2	3,864.7	5.1

Source: Government Spokesman Bureau

**Table 13: Budget Appropriation for FY 2000 by Ministry**  
(million baht)

	amount	ratio to budget	+/-	%
Total	860,000	100.0	35,000.0	4.2
1. Central fund	82,920.4	9.6	6,009.9	7.8
2. Office of the PM	8,003.8	0.9	998.8	14.3
3. Defense	77,299.8	9.0	232.9	0.3
4. Finance	76,961.5	9.0	1,747.3	2.3
5. Foreign Affairs	3,943.4	0.5	-163.2	-4.0
6. Agriculture	70,668.2	8.2	5,260.3	8.0
7. Transport and Communications	51,244.2	6.0	-5,679.6	-10.0
8. Commerce	4,359.1	0.5	416.6	10.6
9. Interior	93,209.4	10.8	-4,727.5	-4.8
10. Labor and Social Welfare	17,546.6	2.0	6,419.4	57.7
11. Justice	180.4	0.02	-4,887.7	-96.4
12. Sciences, Technology and Env.	13,886.7	1.6	2,641.9	23.5
13. Education	159,261.4	18.5	7,509.3	4.9
14. Public Health	59,183.6	6.9	2,012.3	3.5
15. Industry	4,483.0	0.5	602.2	15.5
16. University Affairs	34,420.0	4.0	151.8	0.4
17. Others except Office of the PM	47,025.7	5.5	4,432.9	10.4
18. State enterprises	24,326.8	2.8	3,266.4	15.5
19. Revolving fund	30,010.0	3.5	7,690.0	34.5
20. Independent agencies in line with the Constitution	1,066.0	0.1	1,066.0	100.0

Source: Government Spokesman Bureau

**Table 14: Public Sector Debt**  
(billion baht)

	Central government			State-owned enterprises					BOT		Total	
	Domestic debt	<i>Of which: loan for FIDF and financial restructu- ring</i>	External debt	Domestic debt	Non-guaranteed domestic debt	External debt	Non-guaranteed external debt	Total	External debt (US\$)	External debt (baht)	Total debt	% of GDP
1979	90,166	..	23,210	..	..	32,181	121	32,302	..	..	..	..
1980	109,781	..	30,035	..	..	49,879	1,235	51,114	..	..	..	..
1981	127,455	..	41,383	..	..	72,880	2,757	75,637	..	..	..	..
1982	160,372	..	49,132	..	..	89,604	57	89,661	..	..	..	..
1983	185,815	..	56,717	..	..	101,430	91	101,522	..	..	..	..
1984	219,143	..	73,779	..	..	128,059	119	128,178	..	..	421,101	42.6%
1985	249,253	..	101,883	..	..	154,537	2,722	157,259	..	..	508,395	48.1%
1986	301,235	..	112,361	..	..	160,729	..	160,729	1,069	27,933	602,258	53.1%
1987	322,122	..	129,606	..	..	194,772	..	194,772	973	24,393	670,893	51.6%
1988	304,878	..	133,567	..	..	184,792	..	184,792	672	16,961	640,199	41.0%
1989	291,255	..	127,168	..	..	187,214	..	187,214	275	7,065	612,701	33.0%
1990	278,346	..	93,608	16,594	1,595	223,273	..	241,462	1	25	613,441	28.1%
1991	230,109	..	95,749	49,367	1,269	228,037	..	278,674	0	0	604,531	24.1%
1992	202,694	..	97,567	62,938	13,245	235,928	..	312,111	0	0	612,372	21.6%
1993	161,071	..	104,102	109,694	25,254	257,826	..	392,773	0	0	657,946	20.8%
1994	103,200	..	116,629	159,815	30,589	277,635	..	468,039	0	0	687,868	18.9%
1995	72,696	..	120,934	208,690	29,589	292,232	..	530,511	0	0	724,141	17.3%
1996	44,254	..	131,340	239,690	38,678	266,572	..	544,940	0	0	720,534	15.7%
1997	31,755	..	267,792	247,259	46,510	476,717	..	770,487	7,157	338,168	1,408,202	29.2%
1998	426,928	400,000	247,104	255,696	44,910	443,825	..	744,431	11,204	413,091	1,831,554	38.2%
99Q1	528,869	502,383	323,682	266,506	44,910	485,896	..	797,312	11,286	423,789	2,073,653	39.6%
99Q2	580,652	537,251	319,255	265,598	42,689	492,286	..	800,573	11,903	439,340	2,139,819	45.8
99Q3	598,728	537,553	359,635	284,360	42,689	558,650	..	885,699	12,702	506,604	2,350,666	50.3

Source: MOF, BOT, NESDB, NSO, and author's calculations

Note: 1999 nominal GDP figure used in calculating percentage of debt to GDP in 1999 is based on 4.0% year-on-year growth of real GDP in 1999.

## ANNEX 2: FINANCIAL SECTOR

Table 1: The Flow of Non-performing Loans in Past Three Months

Reduction in NPLs	Oct-99	Nov-99	Dec-99
Accrued interest payment	17,374	30,576	22,601
Others incl. principle payment	21,654	15,871	33,262
Transfer to AMC	42,498	55,900	41,200
Write off	1,284	250	66,526
Completed restructuring	55,331	53,246	149,748
<b>Total NPL reduction</b>	<b>138,141</b>	<b>155,843</b>	<b>313,337</b>
New NPLs	44,368	52,122	39,962
Reentry NPLs	9,825	8,217	14,989
<b>Net NPL reduction</b>	<b>83,948</b>	<b>95,504</b>	<b>258,386</b>

Table 2: Consolidation in the Domestic Financial Sector

	Pre-crisis (6/97)	Oct-99	Change
Domestic Private Banks	14	9*	-5
State-owned Banks	1	4**	3
Foreign (single branch) Banks	14	20	6
Finance Companies	91	21	-70
Total Number of Financial Institutions	120	54	-66

\* Includes BOA, DTDB, NTB and RSB, which now have majority foreign ownership.

\*\* Does not include BBC (wound down), FBCB (merged with KTB) and LTB (merged with RSB).

**Table 3: Of State And Intervened Banks**

<b>State Bank</b>	
<b>Completed</b>	
Q4-1998	Bangkok Bank of Commerce (BBC) - wound down; NPLs transferred to an Asset Management Company; Performing assets and liabilities transferred to Krung Thai Bank (KTB).
Q4-1998	First Bangkok City Bank (FBCB) merged with KTB
Q1-1999	Union Bank (UB) integrated with KTT and another 12 intervened finance companies to form BankThai
Q1-1999	Laemthong Bank (LTB) merged with Radanasin Bank (RSB)
Q4-1999	Nakornthon Bank (NTB) privatized (Standard Chartered Bank acquired 75% stake)
Q4-1999	RSB privatized (Singapore's United Overseas Bank acquired 75% stake)
<b>Future</b>	
Q1-2000 <i>Long term</i>	Bangkok Metropolitan Bank (BMB) and Siam City Bank (SCIB) to be privatized BankThai and KTB may be privatized (through domestic and/or foreign investors)

**Table 4: Foreign Entry Into Thai Banks**

<b>Banks</b>	<b>Foreign Ownership</b>		
	<b>Mar-97</b>	<b>Oct-99</b>	<b>% pt. increase</b>
<b>Banks acquired by foreign institutions</b>			
Bank of Asia (BOA)	6.06%	75.00%	68.94%
DBS Thai Danu Bank (DTDB)	9.42%	51.00%	41.58%
Nakornthon Bank (NTB)	5.58%	75.00%	69.42%
Radanasin Bank (RSB)	0.00%	75.00%	75.00%
<b>Banks with foreign minority ownership</b>			
Bangkok Bank (BBL)	25.00%	48.78%	23.78%
Bank of Ayudhya (BAY)	24.95%	40.00%	15.05%
Siam Commercial Bank (SCB)	25.00%	49.00%	24.00%
Thai Farmers Bank (TFB)	25.00%	48.98%	23.98%

\* Bangkok Metropolitan Bank (BMB) and Siam City Bank (SCIB) are expected to be privatized by Q2-2000.

**Table 5: Recapitalization Progress**

<b>Recapitalization Completed (January 1998 to October 1999)</b>			
<b>(Bt Billion)</b>	<b>Tier-1</b>	<b>Tier-2</b>	<b>Total</b>
Private banks	305.2	53.2	358.4
State banks	427.1	-	427.1
Finance companies	30.4	1.5	31.9
<b>Total Recap completed</b>	<b>762.7</b>	<b>54.7</b>	<b>817.4</b>

Source: Bank of Thailand

**Table 6: Utilization Of The Government's Capital Support Program As Last Resort**

**The Utilization of the August 14  
Capital Support Program**

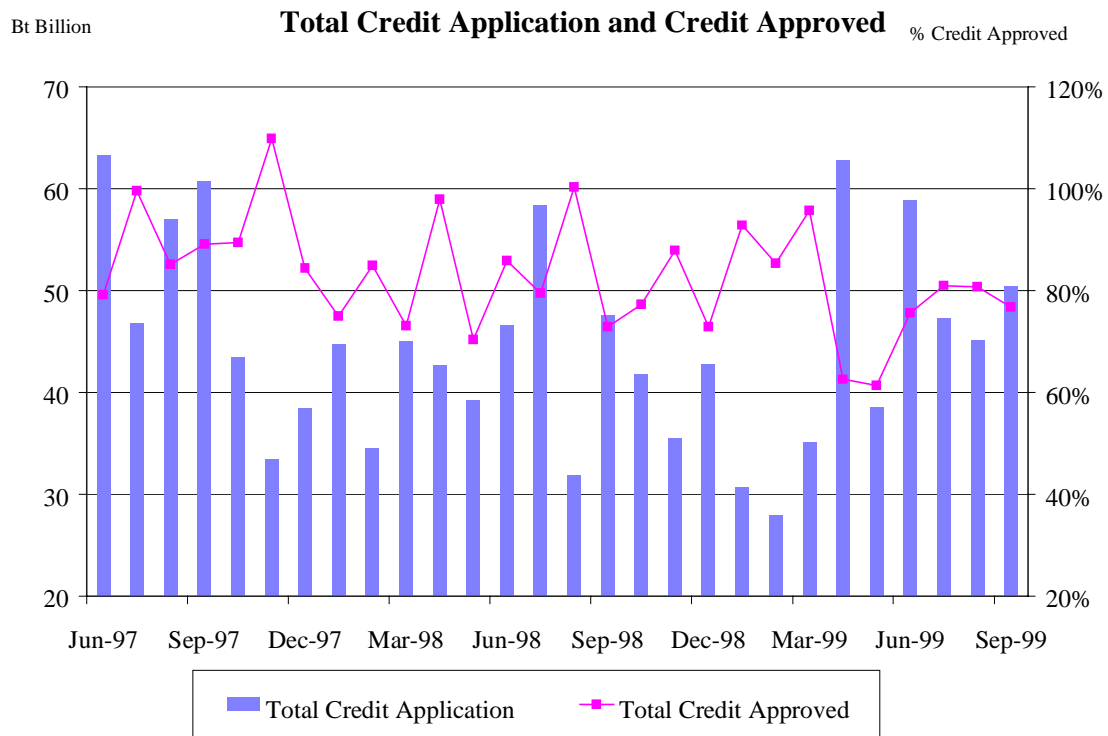
<b>(Bt Billion)</b>	<b>Tier-1</b>	<b>Tier-2</b>	<b>Total</b>
Approved	36	3	38
Applied	21	21	42
<b>Total</b>	<b>57</b>	<b>24</b>	<b>81</b>

**Table 7: FRA's Completion of Core Asset Auctions****Financial Sector Restructuring Authority Auction Results**

<b>Bid Date</b>	<b>Core Assets</b>	<b>Recovery</b>		
		<b>(Bt Billion)</b>	<b>(Bt Billion)</b>	<b>%</b>
25-Jun-98	Auto hire purchase contracts	51.8	24.9	48.0%
13-Aug-98	Residential mortgage loans	24.6	11.5	46.8%
15-Dec-98	Business loans (1st Round)	155.7	39.0	25.0%
19-Mar-99	Business loans (2nd Round)	221.5	40.3	18.2%
6-Jul-99	Construction loans	1.3	0.2	12.2%
11-Aug-99	Commercial & other loans (1st)	129.0	31.0	24.0%
11-Nov-99	Commercial & other loans (2nd)	16.3	5.4	32.9%
<b>Total</b>		<b>600.2</b>	<b>152.2</b>	<b>25.4%</b>

Source: Financial Sector Restructuring Authority

**Figure 1: Loan Approvals To Applications Remain Steady**



Source: Bank of Thailand

**Table 9: Domestic Capital Markets Development (Size Of The Market)**

<b>(Bt Billion)</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999 (Sept)</b>
<b>Bank Loans</b>	4,825	5,984	5,372	5,447
<b>Equities</b>	2,560	1,133	1,268	1,692
<i>As % of bank loans</i>	<b>53%</b>	<b>19%</b>	<b>24%</b>	<b>31%</b>
<b>Bond (domestic)</b>	519	547	926	1,305
<i>As % of bank loans</i>	<b>11%</b>	<b>9%</b>	<b>17%</b>	<b>24%</b>

## ANNEX 3: CORPORATE SECTOR

**Table 1: Interest Coverage By Selected Sectors  
(EBITDA/Interest Expense)**

Sectors	1997	1998	1999 (9mo.)
Electronics and Parts	6.54	3.71	12.29
Vehicles and Parts	2.89	1.94	3.58
Commercial Exports	1.97	1.54	3.54
Services (Hotel)	1.68	2.82	2.42
Real Estate	0.36	-0.40	0.50
Textiles	1.72	1.15	1.47
Transportation	8.09	6.08	2.59

Source: Merrill Lynch Phatra

**Table 2: Capacity Utilization of Selected Sectors Unit  
(Percent)**

	1997	1998	1999
Food Products	38	34	43
Petroleum Products	90	84	87
Iron and Steel Products	52	33	34
Construction Materials	73	45	50
<b>Total</b>	<b>66</b>	<b>52</b>	<b>60</b>

Source: Bank of Thailand

Table 3: Completed merger cases in Thailand

Sectors	1997			1998			1999		
	# of Cases	Value (Bt mill)	% of Value	# of Cases	Value (Bt mill)	% of Value	# of Cases	Value (Bt mill)	% of Value
Electronics	2	5,757	20%	13	5,628	5%	4	10,895	29%
Automotive	2	733	3%	10	4,514	4%	7	2,326	6%
Finance	9	11,332	40%	25	37,300	36%	2	7,326	19%
Others*	9	10,853	37%	37	57,855	55%	10	17,465	46%
<b>Total</b>	<b>22</b>	<b>28,675</b>	<b>100%</b>	<b>85</b>	<b>105,297</b>	<b>100%</b>	<b>23</b>	<b>38,042</b>	<b>100%</b>

Source: M&A Data Base, The Booker Group

**Table 4: Status of CDRAC Target Cases**  
As of January 27, 2000

Stage	No. Cases	Outstanding Credit (million baht)	Share of Out-standing
Completed, signed and documented restructuring deals	180	422,632	
Deals in Process of Signing and Legal Documentation	91	281,370	
<b>Total Completed Cases</b>	<b>271</b>	<b>704,002</b>	<b>34 %</b>
<b>Cases Waiting to sign agreement</b>	<b>872</b>	<b>545,715</b>	<b>27 %</b>
<b>Cases in Debt Restructuring Process</b>	<b>357</b>	<b>436,904</b>	<b>21 %</b>
Cases failed to reach agreement: CDRAC advises legal action	192	366,860	
Cases in which creditors took legal action independently	35	94,973	
<b>Unsuccessful cases in Process of Legal Action</b>	<b>227</b>	<b>461,833</b>	<b>22 %</b>
<b>Total</b>	<b>1,727</b>	<b>2,148,454</b>	<b>100 %</b>

Source: Bank of Thailand Office of Corporate Debt Restructuring

**Table 5: Progress of Bankruptcy Court - Reorganization**

<b>Action / Period</b>	<b>Apr-Oct 1998</b>	<b>Nov-1998 to Apr- 1999</b>	<b>May-Oct 1999</b>	<b>Nov-Dec 1999</b>	<b>Total</b>
New filings	9	9	12	7	37
Petition accepted	3	7	12	3	25
Plan approved by creditors	3	3	1	0	8
Restructuring Plan rejected	0	3	0	0	3
Work-in-progress	0	1	11	14	14
<b>Total Amount (Bt Million)</b>	<b>51,595</b>	<b>39,640</b>	<b>176,558</b>	<b>95,048</b>	<b>362,841</b>

Source: Central Bankruptcy Court of Thailand

## ANNEX 4: SOCIAL INDICATORS

Table 17: Key Social Indicators

	Latest data (date)	Previous Period (date)
<b>Human Development</b>	<b>1997-98</b>	<b>1994-95</b>
Primary enrollment rate (gross) <sup>1</sup>	91.4	91.0
Male	93.1	92.3
Female	90.0	89.0
Secondary enrollment rate (gross) <sup>1</sup>	60.3	60.0
Male	58.0	58.4
Female	63.0	61.0
Tertiary enrolment rate <sup>1</sup>	21.0	19.3
Male	19.0	18.0
Female	23.1	21.0
Infant mortality rate <sup>2</sup>	26.1 (1995-96)	34.5 (1991)
<b>Poverty and Income Distribution<sup>3</sup></b>	<b>1998</b>	<b>1996</b>
National Headcount Index (% of population)	13.0	11.4
Gini Index (based on per capita expenditure)	0.415	0.439
<b>Government Expenditure<sup>4</sup></b> <b>(budget allocations)</b>	<b>(Billion Baht)</b> <b>FY98</b>	<b>(Billion Baht)</b> <b>FY97</b>
Nominal Health (% of total)	73.0	71.3
Real Health (1994=100)	60.3	57.1
Nominal Education (% of total)	219.7	203.8
Real Education (1994=100)	172.4	171.9
<b>Labor Market</b>	<b>May 1999</b>	<b>May 1998</b>
Unemployment rate (%) <sup>5</sup>	5.6	5.3
Female	47.0	47.0
Participation rate (%) <sup>6</sup>		
Female	69.0	68.0
Male	87.0	86.0
Share of female employment in total wage employment	40.3	39.6
Strike incidents/workers involved during year	2/685 (1998) <sup>7</sup>	20/14,130 (1997)
Real wages (% change)	-	-
Female/Male nominal wage ratio (%)		
Private sector	83.3	
Government sector	100.4	

1. Office of the National Education Commission.

2. NESDB/ADB, "Health and Nutrition in Thailand", Volume 3, Number 3: July 1999. Estimates obtained from the Survey of Population Change.

3. NESDB/ADB, "Poverty and Inequality During the Economic Crisis in Thailand", Volume 3, Number 1: January 1999. Estimates obtained from the Social and Economic Survey.

4. Bureau of Budget, Sectoral budget classification.

5. National Statistics Office Labor Force Survey.

6. Calculated as number of female in the labor force as percentage of females between the ages of 13 and 59.

7. Bank of Thailand, Key economic indicators, June 30, 1999.

**Table18: Summary Table on Unemployment***(thousands)*

<b>Labor force status</b>	<b>Aug-96</b>	<b>Feb-97</b>	<b>Aug-97</b>	<b>Feb-98</b>	<b>May-98</b>	<b>Aug-98</b>	<b>Feb-99</b>	<b>May-99</b>	<b>Aug-99</b>
	<b>Total</b>	<b>Total</b>	<b>Total<sup>1/</sup></b>	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>
Total Population	60,045	60,351	60,649	60,949	61,098	61,248	61,551	61,704	61,857
Total labor force	32,750	32,000	33,561	32,143	32,170	33,353	32,810	32,971	33,210
1.Current labor force	32,586	30,964	33,455	30,892	30,168	33,276	31,740	31,591	33,073
1.1 Employed	32,232	30,266	33,162	29,413	28,555	32,138	30,025	29,832	32,087
Underemployed (<20 hours/week) <sup>2</sup>	581	544	721	1,477	363	938	863	753.4	953.8
<i>% of total labor force</i>	1.8	1.7	2.1	4.6	1.1	2.8	2.6	2.3	2.9
<i>% of current labor force</i>	1.8	1.8	2.2	4.8	1.2	2.8	2.7	2.4	2.9
1.2 Unemployed	354	698	293	1,479	1,613	1,138	1,716	1,759	985.7
<i>% of total labor force</i>	1.1	2.2	0.9	4.6	5.0	3.4	5.2	5.3	3.0
<i>% of current labor force</i>	1.1	2.3	0.9	4.8	5.3	3.4	5.4	5.6	3.0
1) Looking for work	110	180	96	403	492	477	476	498	326
2) Available / not looking for work	244	518	196	1,077	1,120	662	1,240	1,260.4	659.7
2.Seasonally inactive labor force	164	1,036	106	1,251	2,002	77	1,070	1,380	137.2
<i>% of total labor force</i>	0.5	3.2	0.3	3.9	6.2	0.2	3.3	4.2	0.4
Unemployed + seasonally inactive labor force	518	1,734	398	2,730	3,615	1,215	2,786	3,139	1,123
<i>% of total labor force</i>	1.6	5.4	1.2	8.5	11.2	3.6	8.5	9.5	3.4

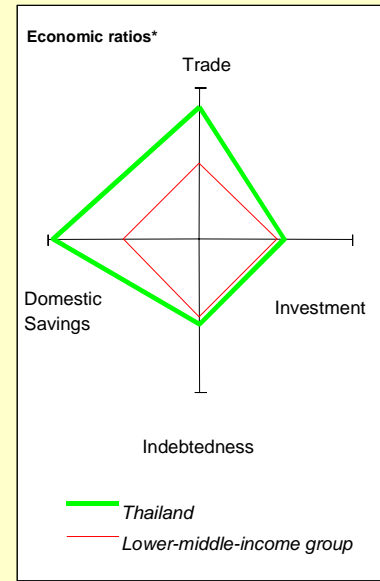
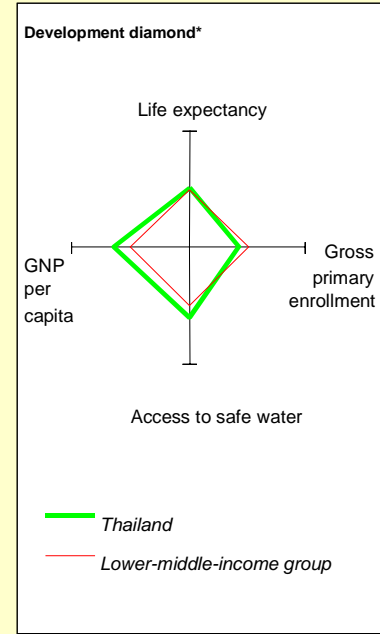
*Source:* Labor Force Survey by National Statistical Office

1/ The May round was skipped in 1997.

2/ Line added by World Bank staff. Underemployment is (arbitrarily) defined here as those employed working less than 20 hours/week.

**Annex 5: Thailand at a Glance**

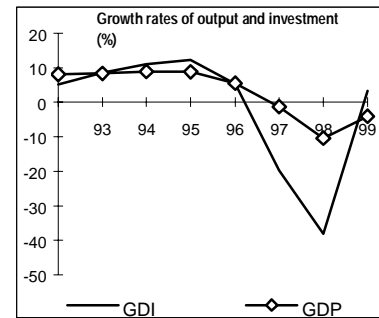
	Thailand	East Asia & Pacific	Lower-middle-income		
<b>POVERTY and SOCIAL</b>					
<b>1998</b>					
Population, mid-year (millions)	61.1	1,817	908		
GNP per capita (Atlas method, US\$)	2,200	990	1,710		
GNP (Atlas method, US\$ billions)	134.4	1,802	1,557		
<b>Average annual growth, 1992-98</b>					
Population (%)	1.1	1.2	1.1		
Labor force (%)	0.8	1.6	1.5		
<b>Most recent estimate (latest year available, 1992-98)</b>					
Poverty (% of population below national poverty line)	13	..	..		
Urban population (% of total population)	40	35	58		
Life expectancy at birth (years)	69	69	68		
Infant mortality (per 1,000 live births)	26	37	38		
Child malnutrition (% of children under 5)	11	20	..		
Access to safe water (% of population)	89	77	75		
Illiteracy (% of population age 15+)	5	15	14		
Gross primary enrollment (% of school-age population)	91	117	103		
Male	93	119	105		
Female	90	118	100		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	<b>1977</b>	<b>1987</b>	<b>1997</b>	<b>1999</b>	
GDP (US\$ billions)	19.8	50.5	150	127.0	
Gross domestic investment/GDP	26.9	27.9	30.1	29.7	
Exports of goods and services/GDP	20.0	28.9	48.1	56.7	
Gross domestic savings/GDP	21.5	28.4	35.2	40.0	
Gross national savings/GDP	21.5	27.1	33.0	31.0	
Current account balance/GDP	-5.5	-0.7	-2.0	9.0	
Interest payments/GDP	0.6	2.1	0.1	2.7	
Total debt/GDP	16.9	40.3	62.3	61.3	
Total debt service/exports	13.7	21.9	16.2	20.4	
Present value of debt/GDP	..	..	59.3	..	
Present value of debt/exports	..	..	119.4	..	
	<b>1977-87</b>	<b>1988-98</b>	<b>1997</b>	<b>1999</b>	<b>2000-03</b>
<i>(average annual growth)</i>					
GDP	5.8	6.9	-1.3	4.0	5.0
GNP per capita	3.6	5.5	-2.7	2.8	..
Exports of goods and services	9.5	11.3	1.1	7.0	3.8



## Thailand at a Glance (Continued)

## STRUCTURE of the ECONOMY

	1977	1987	1997	1999
<i>(% of GDP)</i>				
Agriculture	24.8	15.7	9.5	8.9
Industry	29.3	33.3	42.8	41.2
Manufacturing	20.2	24.3	31.2	32.1
Services	45.9	50.9	47.7	49.9
Private consumption	67.9	60.2	55.4	54.2
General government consumption	10.6	11.3	10.1	11.5
Imports of goods and services	25.4	28.3	48.2	45.0

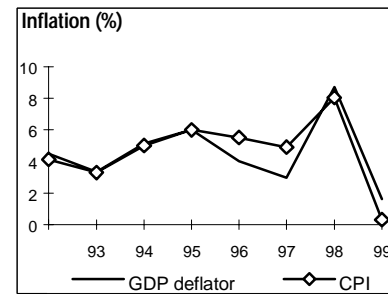


	1977-87	1988-98	1997	1999
<i>(average annual growth)</i>				
Agriculture	3.5	2.6	2.1	2.6
Industry	6.9	8.8	-0.6	4.2
Manufacturing	6.2	9.3	2.5	7.8
Services	6.1	6.5	-2.1	5.1
Private consumption	4.6	5.7	-0.9	3.8
General government consumption	6.6	5.8	-1.6	6.3
Gross domestic investment	4.1	6.2	-19.7	3.4
Imports of goods and services	4.4	9.0	-10.0	21.3
Gross national product	5.6	6.9	-1.1	..



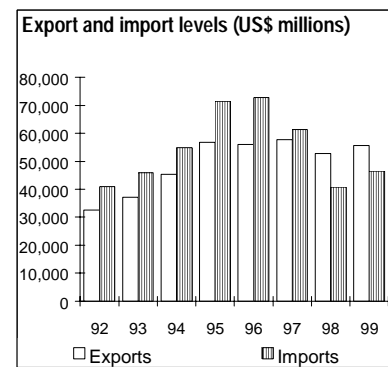
## PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1999
<b>Domestic prices</b>				
<i>(% change)</i>				
Consumer prices	..	2.5	4.9	0.3
Implicit GDP deflator	6.0	4.7	5.7	-2.6
<b>Government finance</b>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	12.9	15.3	18.6	15.1
Current budget balance	1.2	1.1	..	..
Overall surplus/deficit	-2.9	-2.1	-0.9	-3.0



## TRADE

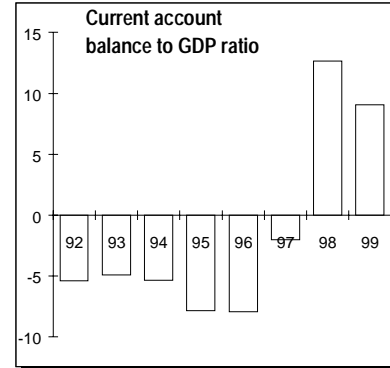
	1977	1987	1997	1999
<i>(US\$ millions)</i>				
Total exports (fob)	3,490	11,654	57,604	47,519.0
Rice	656	884	2,075	1,544.2
Rubber	302	799	1,832	890.1
Manufactures	..	6,989	45,113	40,153.1
Total imports (cif)	..	13,471	61,353	38,341.9
Food	..	..	2,041	852.7
Fuel and energy	..	1,733	5,367	3,336.7
Capital goods	..	..	29,796	19,496.3
Export price index (1995=100)	..	95	105	88.0
Import price index (1995=100)	..	71	107	92.5
Terms of trade (1995=100)	..	133	98	87.0



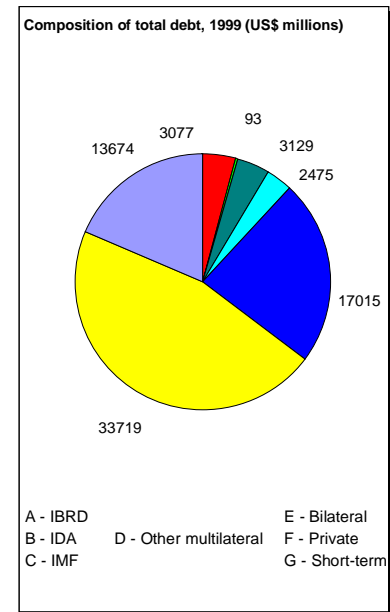
## Thailand at a Glance (Continued)

**BALANCE of PAYMENTS**

	1977	1987	1997	1999
<i>(US\$ millions)</i>				
Exports of goods and services	3,985	14,665	72484	70,662
Imports of goods and services	5,083	14,361	72633	58,977
Resource balance	-1,098	304	-149	11,684
Net income	-38	-894	-3,481	..
Net current transfers	39	225	479	..
Current account balance	-1,098	-365	-3,481	11,200
Financing items (net)	1,106	1,277	-15,226	-14,600
Changes in net reserves	-9	-912	18,250	3,300
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	..	27000	34,800
Conversion rate (DEC, local/US\$)	20.4	25.7	31.4	37.8

**EXTERNAL DEBT and RESOURCE FLOWS**

	1977	1987	1997	1999
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	3,344	20,385	93,731	70,323
IBRD	346	3,413	1,728	3077.0
IDA	19	111	98	93.0
Total debt service	572	3,458	11778	13261
IBRD	44	445	296	301
IDA	0	1	3	3
Composition of net resource flows				<b>1998</b>
Official grants	14	129	78	..
Official creditors	165	30	422.4	1094
Private creditors	165	-103	-732.7	1458
Foreign direct investment	106	352	3,745	2512 <sup>b</sup>
Portfolio equity	0	115	-308	652 <sup>b</sup>
World Bank program				<b>1999</b>
Commitments	138	34	767	1690
Disbursements	75	157	443	1090
Principal repayments	19	181	194	184
Net flows	56	-25	249	906
Interest payments	25	265	104	191
Net transfers	31	-289	145	715



Note: 1999 data are preliminary estimates and are inputs from field office staffs.

1998 Poverty and Social indicators figures have been updated by field office staffs and may therefore differ from existing figures in the formal AAG table.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

<sup>a</sup> as of fiscal year 1999 (Oct98-Sep99)    <sup>b</sup> Jan-Oct99

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## ANNEX 6: SOURCES

- Data on investment, manufacturing, expenditure, balance of payments, monetary variables, and trade are from the Bank of Thailand's (BOT) web page (monthly statistical update, Key Economic Indicators, Databank, all available at <http://www.bot.or.th>.)
- Data on gross domestic product are from the National Economic and Social Development Board's (NESDB) web page, <http://www.nesdb.go.th>
- Data on finished goods inventory, shipment, and production is from the Ministry of Industry database.
- Unemployment data in Thailand come from different sources, including (i) the national Labor Force Survey (LFS) which is conducted by the National Statistical Office (NSO) three times a year, (ii) the number of persons complaining about not getting severance payments after being laid off reported by the Ministry of Labor and Social Welfare (MoLSW), (iii) national censuses (three so far) conducted by the Department of Local Administration (DOLA), and (iv) NESDB estimates of the number of new graduates entering the labor force. We consider the Labor Force Survey the most reliable source and have chosen to focus on those numbers (BOT publishes the numbers on their website).
- Data on Miyazawa Package disbursements are provided by the Comptroller's General Office.
- The "Thailand at a Glance" tables are generated from the World Bank's "live data base." Some of the numbers may differ from BOT tables because of differences in definitions and the use of different exchange rates to convert baht numbers into US dollars.
- Further discussion on the health and education issues are in the World Bank's *Thailand Social Monitor* (July 1999).
- The World Bank's *Thailand: Social and Structural Review* provides further discussion on the various sectors in Thailand.
- Details of Thailand's public reform programs can be found in the World Bank's Public Sector Reform Loan documents.
- Social Sector Program Loan: <http://www.sspl.org/>
- National Statistical Office (for employment data): <http://www.nso.go.th/>
- Thai Rating and Information Services: [www.tris.tnet.co.th/](http://www.tris.tnet.co.th/)
- Stock Exchange of Thailand: [www.set.or.th](http://www.set.or.th)
- Customs data: <http://www.customs.go.th/> (the Customs Department's web site contains a data base with volume and baht value numbers for all export and import commodities.)
- Ministry of Commerce: [http://www.moc.go.th/thai/dbe/dbe\\_engkk1.htm](http://www.moc.go.th/thai/dbe/dbe_engkk1.htm)
- Government's spokesman bureau: <http://www.spokesman.go.th/index/what-e.htm>

### Notes:

*Thailand's fiscal year* is October 1<sup>st</sup> of the previous year to September 30<sup>th</sup> of the fiscal year.

*Government discretionary spending* is defined as government current expenditures net of interest payments.

*Underemployment* is defined here as those working less than 20 hours/week.

*Net reserves* is defined as total foreign exchange reserves net of the Bank of Thailand's forward obligations.

*Foreign direct investment* is defined as equity investment plus loans from related companies, excluding bank recapitalization.

*Manufacturing figures* are from the "manufacturing" category in the NESDB's national income accounting.

*Services figures* include the "Wholesale and retail trade, repair of vehicles and personal household goods", "Hotels and restaurants", and "Other community, social and personal service activities" categories in the NESDB's national income accounting.

*Value added per worker* in a sector is the gross domestic product in the sector divided by the total number of employment in that sector.

*Total public debt* includes those of the central government, state enterprises, and the Bank of Thailand.

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### LINKS

Other Web sites on Thailand worth visiting:

- BOT's Economic Research Department: [www.bot.or.th/research/public/econpage.htm](http://www.bot.or.th/research/public/econpage.htm)
  - Masterplan: [www.mof.go.th/SEPC/](http://www.mof.go.th/SEPC/)
  - Fiscal data: [www.mof.go.th/fiscal/](http://www.mof.go.th/fiscal/) and <http://www.fpo.mof.go.th/other5/engd5.htm>
  - Board of Investment: [www.boi.go.th/](http://www.boi.go.th/)
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